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National Defense Authorization Act...

[H.N.S.C. No. 104-26]

RINGS

ON

NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 1997—H.R. 3230

AND

OVERSIGHT OF PREVIOUSLY AUTHORIZED PROGRAMS

BEFORE THE

COMMITTEE ON NATIONAL SECURITY HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

MILITARY READINESS SUBCOMMITTEE HEARINGS

ON

TITLE III—OPERATION AND MAINTENANCE

HEARINGS HELD
MARCH 19 AND APRIL 16, 1996



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104TH CONGRESS
2D SESSION

H. R. 3230

To authorize appropriations for fiscal year 1997 for military activities of the Department of Defense, to prescribe military personnel strengths for fiscal year 1997, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 15, 1996

Mr. SPENCE (for himself and Mr. DELLUMS) (both by request) introduced the following bill; which was referred to the Committee on National Security

A BILL

To authorize appropriations for fiscal year 1997 for military activities of the Department of Defense, to prescribe military personnel strengths for fiscal year 1997, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "National Defense Authorization Act for Fiscal Year 1997".

* * * * * * *

TITLE III—OPERATION AND MAINTENANCE

Subtitle A—Authorization of Appropriations

SEC. 301. OPERATION AND MAINTENANCE FUNDING.

Funds are hereby authorized to be appropriated for fiscal year 1997 for the use of the Armed Forces of the United States and other activities and agencies of the Department of Defense, for expenses, not otherwise provided for, for operation and maintenance, in amounts as follows:

(1) For the Army, $18,114,479,000.

(2) For the Navy, $20,196,197,000.

(3) For the Marine Corps, $2,203,777,000.

(4) For the Air Force, $17,913,455,000.

(5) For the Defense Agencies, $10,156,468,000.

(6) For the Army Reserve, $1,084,436,000.

(7) For the Naval Reserve, $843,927,000.

(8) For the Marine Corps Reserve, $99,667,000.

(9) For the Air Force Reserve, $1,488,553,000.

(10) For the Army National Guard, $2,208,477,000.

(11) For the Air National Guard, $2,654,473,000.

(12) For the Defense Inspector General, $136,501,000.

(13) For Drug Interdiction and Counter-drug Activities, Defense, $642,724,000.

(14) For the United States Court of Appeals for the Armed Forces, $6,797,000.

(15) For Environmental Restoration, Army, $356,916,000.

(16) For Environmental Restoration, Navy, $302,900,000.

(17) For Environmental Restoration, Air Force, $414,700,000.

(18) For Environmental Restoration, Defense-wide, $258,500,000.

(19) For Medical Programs, Defense, $9,358,288,000.

(20) For Overseas Humanitarian, Disaster, and Civic Aid, $80,544,000.

(21) For Former Soviet Union Threat Reduction, $327,900,000.

(22) For Payments to Kaho'olawe Island, $10,000,000.

SEC. 302. WORKING CAPITAL FUNDS.

Funds are hereby authorized to be appropriated for fiscal year 1997 for the use of the Armed Forces of the United States and other activities and agencies of the Department of Defense for providing capital for working capital and revolving funds in amounts as follows:

(1) For the Defense Business Operations Fund, $947,900,000.

(2) For the National Defense Sealift Fund, $963,002,000.

Subtitle B—Other Matters

SEC. 310. REMEDIES FOR CONTRACTOR EMPLOYEE WHISTLEBLOWERS.

Section 2409(c) of title 10, United States Code, is amended—

(1) in subparagraph (B) by striking the period at the end, inserting in lieu thereof "; or in lieu of reinstatement, order the contractor to pay the person an amount equal to the compensation (including back pay) that would apply to the person in that position if the reprisal had not been taken and an award for damages."; and

(2) by adding at the end of paragraph (c)(1) the following new subparagraph (D):

"(D) Order the contractor to reimburse the agency that conducted the reprisal investigation an amount equal to the cost of the investigation.".

SEC. 311. REPEAL OF REQUIREMENT FOR PHYSICAL EXAMINATION ON CALLING MILITIA INTO FEDERAL SERVICE.

(a) REPEAL OF REQUIREMENT.—Section 12408 of title 10, United States Code, is repealed.

(b) CLERICAL AGREEMENT.—The table of sections at the beginning of chapter 1209 is amended by striking out the item relating to section 12408.

SEC. 312. DEFENSE BUSINESS OPERATIONS FUND AMENDMENT.

Section 2216(i)(1) of title 10, United States Code, is amended by striking "$50,000" and inserting in lieu thereof "$100,000".

* * * * * * *

FORCE READINESS

HOUSE OF REPRESENTATIVES,
COMMITTEE ON NATIONAL SECURITY,
MILITARY READINESS SUBCOMMITTEE,
Washington, DC, Tuesday, March 19, 1996.

The subcommittee met, pursuant to call, at 2:30 p.m., in room 2118, Rayburn House Office Building, Hon. Herbert Bateman (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, MILITARY READINESS SUBCOMMITTEE

Mr. BATEMAN. Though we are in very short supply of members at the moment, we will go ahead and open the meeting. I will deliver the opening statement I planned on making, and if any of the members are desperately in need of it, we will furnish them a copy.

This afternoon, the Military Readiness Subcommittee commences its oversight hearings associated with the fiscal year 1997 budget cycle.

Today's hearing focuses on the current state of readiness of our forces and the impact of contingency operations on force readiness with an emphasis on the impacts associated with operation Joint Endeavor. It also seeks to obtain a better understanding of the effect of current OPTEMPO on our forces, their equipment, training, and the ability of the military services to meet their warfighting requirements.

Our focus today represents a continuation of our concerns from last year in the aftermath of the readiness shortfalls this committee identified in late 1994. It also represents our commitment, based upon that experience, to monitor the readiness of the forces to ensure that such shortfalls are not repeated.

Many of the readiness shortfalls experienced in late 1994 resulted from the diversion of funds from training and maintenance accounts to fund unbudgeted contingency operations. In the fiscal year 1996 Defense Authorization Act, Congress included a provision that established a funding mechanism designed to protect these readiness accounts from being raided in the future.

Now, in the fiscal year 1997 request, for the first time ongoing operations are budgeted within the defense top line. I look forward to hearing from our witnesses today on how these operations are being financed, particularly with respect to operation Joint Endeavor and the impact on the operation and maintenance accounts.

Readiness shortfalls also occurred as a result of the underfunding of defense, generally, and the operation and maintenance accounts, specifically. Unfortunately, we are again seeing shortfalls

in the defense budget in all areas. The administration has tried to cramp defense requirements into a top line driven budget, which, in my view, ignores the current and future needs of our military forces.

Last week, the subcommittee received a briefing on the fiscal year 1997 O&M budget. Once again, key accounts are underfunded. This leads to the question of how long can we continue to watch these declining trends before the system breaks?

These are questions I hope we can shed light on today. Readiness shortfalls, however, are not solely dollar driven. The increased pace of operations coupled with the drawdown of forces is, as we all know, requiring that our forces do more with less.

U.S. Forces are still running hard. There is a danger that if we continue to keep the high pace of operations for much longer we will not only wear out our equipment, but we will also wear out our highly skilled and trained personnel. Replacing an armored vehicle is a procurement problem; replacing the people who operate those vehicle systems is a much larger and more expensive problem.

In September 1995, the DOD Inspector General's Office issued a report on its evaluation of how the services reconstitute combat units for wartime tasks following their return from contingency operations. While the report concluded that military services effectively anticipate and meet combat unit training needs, it did note, and I quote, "During our interviews, leaders within the military services and one unified command expressed concerns about the long-term impacts of military operations other than war on personnel, equipment, and supplies," the leader said, "downsizing and the operational tempo of military operations other than war have stretched the force significantly. I believe they dilute the focus of the Armed Forces for the major regional contingencies risk establishment and squander resources," unquote.

In his statement before the full committee Army Chief of Staff General Dennis Reimer touched on this concern when he noted, "The greatest potential threat to Army readiness is the medium- and long-term impact of increased operational pace and insufficient modernization funding," unquote.

On the issue of the high operational tempo, General Reimer stated, quote: "Excessive time away from home is often cited by quality professionals as the reason for their decision to leave the military. It is common to find soldiers in today's Army who have been away from home answering the Nation's calls for 140, 160, or 190 days of this past year," unquote.

It has been said many times that readiness is a perishable commodity; by the time you notice a problem, it is too late. It is critical that we remain vigilant in protecting force readiness. This hearing is part of that process, and I look forward to hearing from our witnesses.

Today's witnesses include on panel one: Maj. Gen. Eric K. Shinseki, Assistant Deputy Chief of Staff for Operations and Plans of the United States Army. He is standing in for Gen. Paul Blackwell, Deputy Chief of Staff for Operations and Plans, who is ill, and we certainly wish General Blackwell a speedy recovery. We also have Vice Adm. Thomas J. Lopez, Deputy Chief of Staff for Re-

sources, Warfare Requirements, and Assessments for the United States Navy; Lt. Gen. Arthur C. Blades, Deputy Chief of Staff for Plans, Policies, and Operations, United States Marine Corps; and Lt. Gen. Ralph E. Eberhart, Deputy Chief of Staff for Plans and Operations, United States Air Force.

Before I introduce the second panel, I want to welcome back General Blades and Admiral Lopez before the panel. While you may not remember, my recollection is that a number of votes disrupted, and ultimately shortened, the hearing we held with you last year. With no votes expected before 5 o'clock today, I hope we are going to be able to proceed much better.

The second panel will consist of: Maj. Gen. Clinton V. Horn, U.S. Air Force, Director of Special Operations, Special Operations Command; and Maj. Gen. William Begert, U.S. Air Force, Director of Operations and Logistics for the U.S. Transportation Command.

Before going any further, and not seeing Mr. Sisisky, I would ask Mr. Pickett if he has any statement.

Mr. PICKETT. I do not, except to welcome our witnesses here today.

Mr. BATEMAN. Thank you, Mr. Pickett.

With that, we will proceed with Major General Shinseki.

STATEMENT OF MAJ. GEN. ERIC K. SHINSEKI, ASSISTANT DEPUTY CHIEF OF STAFF FOR OPERATIONS AND PLANS, U.S. ARMY

General SHINSEKI. Mr. Chairman, members of the subcommittee, thank you for the opportunity to appear here today before you on behalf of the Army. As the chairman has noted, General Blackwell regrets that for medical reasons he is not able to make a personal appearance before you to render his report on readiness and has asked that I stand in for him. For the record, General Blackwell's statement has been submitted for the record.

I would like to add to his, my own appreciation for your continued support to the Army and to the sons and daughters of America who serve in that Army.

I took particular note of the chairman's opening comments, and I would like to assure the chairman that your Army is trained, it is ready, and it will remain so in the near term, and this budget sees to that.

At 495,000 soldiers, active component soldiers and 10 active component divisions complemented by a superb reserve component force, the Army is properly sized to fulfill its role as a member of the joint team in executing our national military strategy.

As you know, we have underwritten the costs for the Bosnia contingency by mortgaging training events that are currently programmed for the fourth quarter of this fiscal year. We will require reimbursement not later than April 1 in order to retain those training events as programmed, so that their execution will allow us to sustain the required readiness levels we have established for the remainder of the year.

Without that funding, we could begin to see some training degradation as early as June. And, thereafter, a decline in readiness. And once that process has occurred, a return of dollars will not provide an immediate return in readiness.

We know that we, the Army, will need to establish a sustained and predictable investment program in modernization to meet the challenges of the next century. We are doing our best to bring about internal efficiencies that will free up dollars for reinvestment in those modernization accounts. General Reimer has commented on some of them—downsizing, installation closures, redesign of the institutional Army—driving down the cost of doing business, and even a reassessment of what we say we need in new systems. All are actions underway to help ourselves.

General Reimer has challenged us to leave no stated requirement unchallenged.

Members of the subcommittee, America's soldiers, active and Reserve, their families and the superb civilians who support them are serving the Nation with great distinction. You can be proud of them.

Thank you once again for your support to the Army and for this opportunity to appear here before you. I will be happy to answer any questions you may have.

Mr. BATEMAN. Thank you.

[The prepared statement of General Blackwell follows:]

RECORD VERSION

STATEMENT BY

LIEUTENANT GENERAL PAUL E. BLACKWELL
DEPUTY CHIEF OF STAFF FOR OPERATIONS AND PLANS

BEFORE THE
SUBCOMMITTEE ON READINESS
COMMITTEE ON NATIONAL SECURITY
OF THE
U.S. HOUSE OF REPRESENTATIVES

104TH CONGRESS

ON
MILITARY READINESS

19 MARCH 1996

NOT FOR PUBLICATION UNTIL

RELEASED BY THE HOUSE NATIONAL SECURITY COMMITTEE

LIEUTENANT GENERAL PAUL E. BLACKWELL
DEPUTY CHIEF OF STAFF FOR OPERATIONS AND PLANS
UNITED STATES ARMY

LTG Paul E. Blackwell was born in York, South Carolina, on 19 August 1941. He attended Clemson University where he majored in Agricultural Education and received a Bachelor of Science with honors in June 1963. While at Clemson, LTG Blackwell completed the Reserve Officers' Training Corps curriculum, was designated a distinguished military graduate and commissioned a second lieutenant of Infantry. LTG Blackwell continued his education at Clemson, receiving a Master of Science in Horticulture and Agricultural Education in June 1965. He entered active duty on 7 June 1965. His military education includes completion of the Infantry Officers' Basic and Advanced Courses, the Marine Command and Staff College and the Army War College. In May 1992, LTG Blackwell received an Honorary Doctor of Laws Degree from Clemson University.

LTG Blackwell has held a wide variety of command and staff positions including assignment as Commanding General, 24th Infantry Division (Mechanized). Other key assignments include Commanding General, 2d Armored Division (-), Garlstedt, Federal Republic of Germany and Commander, III Corps (Forward), Maastrich, The Netherlands; Assistant Division Commander, 3d Armored Division and Commander, Hanau Military Community, Federal Republic of Germany; Deputy Director for Operations, National Military Command Center, Joint Staff, Washington, DC; Commander, 1st Brigade, 9th Infantry Division, Fort Lewis, Washington; Chief of Staff, 9th Infantry Division, Fort Lewis, Washington; G3 (Operations Officer), 9th Infantry Division, Fort Lewis, Washington and Commander, 1st Battalion, 4th Infantry, 3d Infantry Division, Aschaffenburg, Federal Republic of Germany.

LTG Blackwell has served in a wide variety of US Army Division--light infantry, airborne infantry, mechanized infantry, motorized infantry and armor.

Following completion of Airborne School, his initial assignment was as the S2/S3, 2d Student Battalion, Fort Benning, Georgia (August 1965 - April 1966). Following attendance at the Jungle Warfare School, Canal Zone, he was assigned to the Republic of Vietnam as platoon leader of an airfield security platoon, followed by duty as a detachment commander and then an area security officer (June 1966 - June 1967). He returned to the United States Army Training Center, Fort Jackson, South Carolina

where he served as Commander, Company D, 6th Battalion, 2d Training Brigade and subsequently, as Commander Special Training Company, 2d Training Brigade (July 1967 - August 1968). Returning to Vietnam, he was assigned as Commander, Company D, 3d Battalion, 60th Infantry, 9th Infantry Division, Mekong Delta. Following command, he served as the Battalion Adjutant and then as Special Assistant to the Division Chief of Staff. Upon redeployment of the 9th Infantry Division to the United States, LTG Blackwell remained in Vietnam joining the 25th Infantry Division as the Division Protocol Officer (September 1968 - October 1969). LTG Blackwell returned to Fort Benning to attend the Infantry Officers' Advanced Course, graduating in August 1970. He then served as an Assistant Professor of Military Science at Clemson University (September 1970 - June 1973). LTG Blackwell then joined the 82d Airborne Division, Fort Bragg, North Carolina as the S3 Air and later as the S3, 2d Battalion, 325th Infantry (June 1973 - June 1975). Following attendance at the Marine Corps Command and Staff College, Quantico, Virginia, he was assigned as Assignment Officer, Infantry Branch, United States Army Personnel Center, Alexandria, Virginia (June 1976 - June 1979). Following this assignment, he was transferred to the United States Army Europe as Brigade S3, 2d Brigade, 3d Infantry Division, Kitzingen, Federal Republic of Germany (June 1979 - June 1980). LTG Blackwell then commanded 1st Battalion, 4th Infantry, 3d Brigade, 3d Infantry Division from June 1980 until June 1982. Following command, he reported to Carlisle Barracks, Pennsylvania to attend the Army War College. After graduating from the Army War College in June 1983, he joined the 9th Infantry Division at Fort Lewis, Washington, where he served sequentially to the G3, Chief of Staff and Commander, 1st Brigade (June 1983 - July 1988). From August 1988 to November 1989, he served as Deputy Director for Operations, National Military Command Center, Joint Staff, Washington, DC. In November 1989, he was assigned as Assistant Division Commander, 3d Armored Division and Commander, Hanau Military Community in the Federal Republic of Germany. From December 1990 to April 1991, he participated in Operation Desert Shield/Desert Storm. In April 1991 in Iraq, he assumed command of 2d Armored Division (-). LTG Blackwell also commanded the 24th Infantry Division (Mechanized) at Fort Stewart, Georgia from May 1992 until June 1994. He then assumed his current duties as the Army's Deputy Chief of Staff for Operations and Plans in July 1994.

LTG Blackwell's awards and decorations include the Distinguished Service Medal, the Silver Star (with Oak Leaf Cluster), the Legion of Merit (with Oak Leaf Cluster), the Bronze Star with V device (with eight Oak Leaf Clusters), the Purple Heart, the Defense Meritorious Service Medal (with three Oak Leaf Clusters), the Air Medal (with device 3), the Army Commendation Medal with V device (with three Oak Leaf Clusters), Army

Achievement Medal, the Combat Infantryman's Badge, the Senior Parachutist Badge, the Army Staff Identification Badge, the Joint Staff Identification Badge, the Office of the Secretary of Defense Identification Badge, and the British Parachutist Badge. LTG Blackwell's unit citations are the Army Meritorious Unit Citation, the Republic of Vietnam Gallantry Cross with Palm Unit Citation, and the Republic of Vietnam Civic Action Honor Medal Unit Citation.

LTG Blackwell is married to the former Janet G. Glenn of York, South Carolina. They have one son, Paul Eugene, of York, South Carolina. LTG Blackwell has one grandson, Paul E. Blackwell, III.

As of March 1996.

Mr. Chairman and distinguished members of the committee, it is an honor for me to appear before you. In this, my twenty-first month as the Army's Deputy Chief of Staff for Operations and Plans, I am pleased to be able to tell you that our nation's Army remains trained and ready. Our CONUS-based forces are capable of quickly projecting American power worldwide in support of our nation's vital interests. Our forward-based forces, to include those engaged in ongoing operational deployments, are successfully demonstrating American commitment, determination and resolve to friends and potential foes alike. As we near the end of a very successful program to reduce the size of the force, our Army remains the envy of every other army in the world. The American Army is manned by top-quality men and women and equipped with the best that American industry and technology can provide.

Operation Joint Endeavor is an excellent example of the capabilities that our Army provides the nation, as well as an example of the challenges and choices that we currently face. By any measure, our soldiers have performed the very difficult and dangerous mission in Bosnia-Herzegovina in a magnificent manner. Working closely with the other Services and our NATO allies and other countries, the Total Army -- active component, reserve component, and civilian -- has demonstrated American resolve, capability and commitment. We have executed this

mission while still engaged in many other operations around the world, and have largely protected the capability to respond to two Major Regional Conflicts (MRC's). The cost of these efforts is substantial; however, prompt funding through supplemental appropriations will mitigate a degradation in near-term readiness.

The readiness that we enjoy in our Army today is maintained at a cost, both in terms of dollars and in terms of the stress on soldiers and Army families. As you know, the component parts of readiness include training (OPTEMPO) and all other activities necessary to be prepared, such as ammunition, training simulations, ranges, land, supply, maintenance, soldier support and force projection platforms. By these quantifiable measures, the Army today is trained and ready. Less easily quantified is the cumulative impact of time away from home, changes in personnel policies (noncommissioned officer promotion slowdowns, reenlistment bonus reductions, top three retirement system) and contingency deployments on the ability of the Army to maintain the quality of the force that is crucial to readiness. Recruiting and retention of quality personnel remains strong, but we are watching very carefully to be sure that we maintain the quality of the force throughout this period of great change.

Fiscal Year 1996 has seen our soldiers deployed abroad to seventy different countries. Over the last year, the Army has had an average of approximately 21,500 soldiers deployed worldwide each month. As a result of the Bosnia deployment that total is now nearly 40,000. During the current year, a significant percentage of the force will spend in excess of six months deployed away from home station. These deployment figures do not include Combat Training Center rotations or other training deployments, and do not include forces forward deployed in unaccompanied assignments such as Korea. These numbers make it clear that further active force reductions increase the risk of meeting an expanding list of commitments at an acceptable cost, particularly in the retention of the quality leaders, soldiers and dedicated families that are at the heart of Army readiness.

We must also maintain the quality of equipment that we place in the hands of our soldiers, equipment that projects power, accomplishes a wide spectrum of missions and protects America's sons and daughters. While current equipment readiness levels are adequate to meet the near term needs of the nation, long term readiness is dependent upon a sustained and stable investment in programs that will develop and procure the very best equipment.

The Army that responds to the nation's needs in the next century will be based on quality people, equipment and doctrine. Army XXI will be more capable than today's force, and we are building it today. Army XXI requires great people. As I indicated, we currently have great people, and we need to continue to assess and sustain that force through quality of life, pay and compensation, housing and family care programs. We have a doctrine that leverages emerging technologies that, when combined with quality people and forward thinking leadership, will ensure that America remains the dominant land force power in the world. The Army seeks your support for the Army program as presented in the 1997 budget.

The transition of the force from 12 to 10 fully structured divisions, which I addressed during my testimony last year, is nearly complete. The building of the Experimental Force (EXFOR) at Fort Hood is on track. The Army's ability to support the national military strategy remains solid. However, the equipment currently being used to train the force and meet operational deployments -- the Abrams tank, Bradley Infantry Fighting Vehicle, Blackhawk and Apache helicopters, self-propelled artillery, and the truck fleet -- is aging and will eventually need to be replaced by new and upgraded systems. Further, funding of unanticipated contingency operations from the Operations and Maintenance (O&M) and Personnel accounts threatens readiness without timely supplemental

funding. For the near-term, training will be curtailed and readiness levels will drop this summer unless Bosnia funding requests are met prior to 1 April. For the long-term, hard decisions that shift funds from lower to higher priority programs needed to be made this year so that the Army could recapitalize the existing fleet of systems and procure key enablers for the force of the next century. We need to put these much needed systems in the hands of our soldiers sooner rather than later, and predictable, adequate funding levels are required for that to happen. Further, a reduction in the number of restrictions imposed on individual programs through floors and ceilings will provide the Army greater flexibility in reprogramming undistributed funds. The efficiencies gained through this relief will allow the Army to better manage the scarce resources needed for both current and future readiness.

The Army will do its part in paying for these programs. We are engaged in an aggressive effort to reengineer the way that we do business. The efficiencies that we realize from this redesign of the institutional Army will be applied to pay for force structure commensurate with our missions, stability in our quality of life programs, and investment in the modernization that is crucial to America's Army of the next century.

Today, your Army remains ready to fight and win our Nation's wars. America's soldiers, their leaders, and their families continue to serve our nation here at home and abroad. A sign frequently found in the kitchens of Army families states that "home is where the Army sends you." Today, Germany, Japan, Korea, Panama, and every state in the union is "home" for your soldiers. For many, like those serving in Bosnia or the Demilitarized Zone in Korea, home is a tent, a barracks room, or a poncho pulled over the head to keep the rain out of their Meal Ready to Eat. We have a shared responsibility to guarantee the security of our great nation. With your assistance, America's Army will be as ready to accomplish its mission in the future as it is today. You can count on us. Thank you for your continued support and, once again, for the opportunity to appear before you.

Mr. BATEMAN. Before I turn to Admiral Lopez, Mr. Sisisky, do you have a statement you would like to make?

Mr. SISISKY. I have a statement, Mr. Chairman, but I would ask unanimous consent to place it in the record at this time. I don't want to interrupt the speakers. I apologize for being late but I had a very good reason.

Mr. BATEMAN. Yes, indeed you did, and I am sure Admiral Lopez would be particularly understanding.

In that event, your statement will be made a part of the record.

[The prepared statement of Mr. Sisisky follows:]

OPENING STATEMENT
HON. NORMAN SISISKY
Before the House National Security Committee
Subcommittee on Military Readiness
March 19, 1996

I join with Chairman Bateman in welcoming you to this hearing today. Your views - like those of the Secretary of Defense, the Chairman of the Joint Chiefs, the Service Secretaries, and the Service Chiefs all from whom we heard earlier regarding the posture of the forces are very important to the Subcommittee as it seeks to perform its duties. We could not properly complete that responsibility without hearing your thoughts.

Time does not permit us to discuss in this abbreviated session the many readiness related issues that could be addressed. But I am particularly interested in understanding the impact of some of the actions taken and decisions made that drive readiness. Along with other issues, some matters I specifically look forward to hearing you address relate to:

The privatization initiatives being undertaken within the department that directly impact on readiness;

The availability of noncommissioned officers and what you are doing to grow and retain them;

The impact of the drawdown of the civilian workforce on borrowed military manpower; and

What can we do to assist you in acheiving your readiness goals?

Thank you for comming. Your contribution here today will help us to understand more about these pressing issues, and thereby help to ensure that we preserve our nation's security and its economic health. I look forward to hearing your testimony and your response to questions from members of the Subcommittee.

Mr. BATEMAN. Admiral Lopez, the floor is yours.

STATEMENT OF VICE ADM. THOMAS J. LOPEZ, DEPUTY CHIEF OF NAVAL OPERATIONS FOR RESOURCES, WARFARE REQUIREMENTS AND ASSESSMENTS, U.S. NAVY

Admiral LOPEZ. Thank you, Mr. Chairman.

The Navy is ready. It is busy. It is very mobile, very flexible. We have a carrier today that just came out of the Med headed down to the Persian Gulf to replace a carrier that just left the Persian Gulf to go to Taiwan to join another carrier off Taiwan, so we are meeting the Nation's commitments. You cannot do that unless you are ready, and readiness is our number one priority.

We think that the key to readiness is three tiers, our top tier being forward deployments and forward engagement. We think that is the key to war prevention, which is what we are about. And also, of course, to respond to crisis and ultimately to fight and win with our fellow services when we need to.

Last year we were involved in 15 operations, including the Bosnia Serb aggression which involved the *Theodore Roosevelt* and the *America*. We assisted the 24th MEU in the rescue of Scott O'Grady, and in many other operations. Today, I think we could term our current readiness as adequate. We are watching that, of course, because we do have a heavy operating schedule. Our ship numbers have decreased from 586 just some 4 or 5 years ago to 357 today.

In fact, today we have 58 percent of our ships underway, and 26 percent are deployed. That is significant because that is a 25-percent increase in OPTEMPO over the past 2½ years. And day for day, we have averaged more than half our ships underway and 25 percent deployed for those 2½ years.

We think that we can meet our commitments, however, with the BUR force. We think that those numbers are about right. They do meet the CINC's requirements and they, of course, meet the two MRCs' requirement and for the Navy that is about the same. The reason to stay forward deployed requires a certain number of ships, and two MRCs require about the same number.

The Navy bill you mentioned for contingencies is some concern, because we are forward deployed we don't have a large bill. Our bill, for instance, in operation Joint Endeavor, is only about 5 percent of the total that is requested.

We think that our future readiness is important. We cannot just think about today's readiness. That readiness is unique. Because of the cold war, the Navy and Marine Corps have joined hands in planning for that future and we do our budgeting together today.

We think our shipbuilding account is good through the next decade if we can build the ships that we require, and that is to build to about 125 surface combatants. But please understand that that has come down from 218 combatants just a few years ago.

Let me conclude by saying that we believe our current readiness systems and processes are good. We think our current system to measure readiness is about right. We are working on predictive indicators for readiness, and we are measuring trends. We don't expect to be surprised by pop-up readiness problems. We are very closely monitoring readiness.

In summary, we are ready; we are forward deployed. We are ready to transition instantly from peace to crisis and ultimately war if we have to do that. We think we have a very credible combat capability in our battle groups and our ARGs that will ultimately prevent war.

Thank you, sir, I am ready for your questions.

Mr. BATEMAN. Thank you, Admiral.

[The prepared statement of Admiral Lopez follows:]

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NATIONAL SECURITY COMMITTEE

STATEMENT OF

VICE ADMIRAL THOMAS J. LOPEZ

DEPUTY CHIEF OF NAVAL OPERATIONS FOR

RESOURCES, WARFARE REQUIREMENTS AND ASSESSMENTS

BEFORE THE

READINESS SUBCOMMITTEE

OF THE

HOUSE NATIONAL SECURITY COMMITTEE

19 MARCH 1996

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Mr. Chairman, members of the committee, it is my pleasure to be here once again to discuss Navy readiness. Navy readiness today is being maintained at a reassuring standard, but there is still a concern for the future. Our view of readiness is consistent with that of the Secretary of Defense -- readiness is key to forward engagement, war prevention, crisis response and victory. Readiness remains Navy's number one priority. Today, I will discuss how our current budget request maintains Navy's readiness, and then I will describe our efforts to pay for the many contingency operations that we have conducted over the past year, and the repercussions resulting from them. Members on this committee have always been particularly helpful in protecting Navy readiness. This year, as expected, presents a difficult challenge. It is heartening to come before this committee, knowing that you share with us a common goal - keeping our Navy forward engaged and ready to fight.

Our fiscal year 1997 budget is designed to support a Navy program that preserves current readiness, as well as anticipates future readiness requirements. Maintaining the right force structure with the technological superiority we now hold over potential adversaries is absolutely critical for success. Thus, our budget continues to modernize weapons, systems, and platforms, as we size our naval forces to meet today's mission needs.

Last year at this time, there was some concern about current readiness and the possibility of the force "going hollow". I am happy to report that did not

happen, and we are fully ready to meet our commitments. Even though we continue through to the later stages of our drawdown, today's Navy can still respond to regional threats and meet the CINCS' requirements for forward presence; and we do so at little additional cost to the American taxpayer. Our efforts to support Operation Joint Endeavor used forces already forward deployed, incurring just over $85.8 million of the $1.6 billion the Congress has been asked to authorize.

In 1995 we were able to better predict contingency operations and their commensurate funding requirements and should, with your assistance, be able to limit the effects of the burden that this year's emergent operations will place on our budget. The bottom line is that the cost of operating the fleet consumes all of our available resources, and when contingencies arise, we are forced to draw on other accounts to pay for current readiness.

Heavy demand for our forces this year indicates that modest adjustments to our force levels are required to meet levels of operations actually being experienced. We are paying particularly close attention to our surface combatant force and amphibious lift capacity. As a result, this year we have added a fourth DDG to the 1997 procurement plan to comply with the congressional intent of a total of six in fiscal years 96 and 97, and one additional LPD in the outyears. This LPD-17 procurement permits us to continue meeting our fiscally constrained goal of lifting 2.5 MEB equivalents in accordance with current guidance. Also, we

plan to retain an additional FFG-7 class frigate. To put this modest change to our surface combatant force in perspective, in 1987 we had a force high of 218 surface combatants; we are now programmed for 129 in fiscal year 1997; 119 active and ten reserve.

Future readiness also received increased attention during the year as we continued to modernize to meet the national security requirements of the 21st century. The readiness of the future is ultimately dependent on a capable and healthy battleforce. To ensure this, we must continue to improve the force structure that remains, both through modernization and procurement. In that regard, we are moving ahead to complete the Seawolf class submarine program and to develop the follow-on new attack submarine. We are contracting the first LPD-17, a ship we need to replace the aging and retired classes of LPDs, LSTs, and LKAs. We are contracting LHD-7, the final ship of a class that provides an impressive family of large deck amphibious ships. Finally, we will buy the last F/A-18 C&D aircraft this year and start buying the F/A-18 E&F in 1997, in addition to our continued development of the V-22 aircraft for the Marine Corps.

Future readiness is also facilitated by correctly sizing the force. A force that is too small places too many demands on people and equipment - it quickly wears them down to a level that puts readiness at risk. While we are clearly committed to being smaller and more modern than the Navy of the 1980s, there is a point where capability and technology will soon not be able to replace lost

structure. Maintaining the readiness of a force that is sized correctly to meet our obligations requires constant examination and we are providing that on a continuing basis.

No matter how we measure readiness, we can never lose sight of our most precious readiness resource - our sailors. The men and women of today's Navy are the finest that have ever sailed the oceans. Without motivated, trained, quality sailors our readiness will surely decline. That is why we place so much effort into ensuring we recruit and retain the required number of people with requisite skills and provide our sailors the quality of life they so well deserve. Our current budget request reflects adequate funding to support active and reserve personnel programs. It funds compensation, healthcare, retirement benefits, and housing improvements.

A key quality of life factor is the amount of time our people spend away from home. We have worked very hard to stay within the CNO's PERSTEMPO guidelines of six month port-to-port deployments. We continually look for innovations to allow a reasonable amount of time between deployments for time with families. Two such innovations are the reorganization of the Atlantic Fleet and the Tactical Training Strategy. Deploying units now train more efficiently, jointly, and specifically for the missions and region where they expect to operate. This frees up valuable time to maintain battlegroup material readiness and gives our people more time at home with their friends and families.

I will conclude by reiterating that maintaining readiness is the number one Navy resource allocation priority, and Navy leadership is committed to that end. In order to properly assess our readiness status, Navy has been working very closely with OSD and the joint staff to integrate and improve existing readiness systems and processes. We are continually conducting self-analyses of our means to measure and predict readiness, including review of readiness measurement techniques developed outside the Navy.

Well-trained people, operating modern, well-maintained equipment in the right numbers are the cornerstone of our Navy. Readiness is ultimately the foundation for maintaining the credibility of our forces as an instrument of foreign policy and national resolve. Today, our Navy is forward deployed and ready to go in harm's way to defend America's interests. They are poised to transition instantly from peace to crisis conflict. We believe that this readiness is well understood by any potential enemy and will give him pause; thus manifesting what is most important, the prevention of war!

At this time, Mr. Chairman, I would be happy to answer any questions the committee might have.

Mr. BATEMAN. General Blades.

STATEMENT OF LT. GEN. ARTHUR C. BLADES, DEPUTY CHIEF OF STAFF FOR PLANS, POLICIES AND OPERATIONS, U.S. MARINE CORPS

General BLADES. Mr. Chairman, Members of the Readiness Subcommittee, it is indeed a pleasure to once again address the committee about Marine Corps readiness. The most important thing the Marine Corps can do for the Nation is to make Marines, win battles, and be ready to deploy in response to contingencies which are required. We will tell you today the Marine Corps is ready to meet our peacetime and wartime contingency requirements.

In 1995, we were involved with over nine contingencies. Since 1991, we have been involved in over 44. With the advantage of forward deployment, our ability to respond to fast breaking events, our precise measures of escalation control, Marine and Navy expeditionary forces we believe will be the force of choice to meet the future littoral contingency in most regions of the world. We believe we will remain the Nation's force of choice, but we will also be the Nation's force of economy. We remain there by providing a substantial portion of our ready and ground aviation forces, and by continuing to fund our forward deploying units from our operation and maintenance account. However, as before, long-term contingencies and large scale crisis response will require supplemental funding; 174,000 Marines and 42,000 Reserves is what we believe to be the minimum requirement to meet our contingency requirements.

Right now your Marine Corps in the operation deployment and operational tempo, approximately one-third of the fleet and Marine force is deployed. One-third of the fleet Marine force is building up to deploy, and one-third of the fleet Marine forces are in post-deployment phase. It is something we are accustomed to. It is something we do and a mission we accept.

We believe that the Marine Corps is prepared to meet the missions that the Nation will levy on us and will continue to provide the operational readiness and training that you expect from the Marine Corps.

I would request the rest of my statement be included in the record.

Mr. BATEMAN. Without objection, that will be done.

[The prepared statement of General Blades follows:]

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SECURITY COMMITTEE

STATEMENT OF

LIEUTENANT GENERAL ARTHUR C. BLADES

UNITED STATES MARINE CORPS

DEPUTY CHIEF OF STAFF FOR PLANS, POLICIES, AND OPERATIONS

BEFORE THE

SUBCOMMITTEE ON READINESS

HOUSE NATIONAL SECURITY COMMITTEE

19 MARCH 1996

CONCERNING

FORCE READINESS

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SECURITY COMMITTEE

UNITED STATES MARINE CORPS

HEADQUARTERS MARINE CORPS, DIVISION OF PUBLIC AFFAIRS
WASHINGTON, D.C. 20380-1775 (703) 614-4309

LIEUTENANT GENERAL ARTHUR C. BLADES, USMC



Lieutenant General Arthur C. Blades is the Deputy Chief of Staff for Plans, Policies and Operations, Headquarters Marine Corps, Washington, D.C. He was advanced to his current rank on 5 August 1994.

General Blades assumed his current position after serving as Deputy Commander/Chief of Staff U.S. Forces Japan, Yokota Air Force Base, Japan. Prior to that he commanded the 1st Marine Aircraft Wing, Okinawa, Japan.

Early in his career General Blades served as a platoon commander at Camp Lejeune, N.C., and a platoon and company commander in the Republic of Vietnam. He transitioned to aviation, and returned to Vietnam for his second tour as a helicopter pilot. Since then he has commanded Marine Air Base Squadron 36, Okinawa, Japan, Marine Helicopter Training Squadron 301, El Toro, Calif., and Marine Aircraft Group 26, New River, N.C.

General Blades' career spans 30 years and is characterized by awards and decorations which include the Silver Star Medal, Defense Superior Service Medal, Legion of Merit, Distinguished Flying Cross, Bronze Star Medal with Combat "V", Purple Heart, Meritorious Service Medal with gold star, Air Medal with Strike Flight Award and numeral 33, Navy Commendation Medal, Government of Japan Order of the Sacred Treasure, Gold and Silver Star and Vietnamese Cross of Gallantry.

Personal Data:
He was born February 3, 1942, in Brooklyn, N.Y., and is married to the former Elsa Coleman of Panama City, Fla. They have a son, William.

Education:
1974 - M.S. Business Administration, Pepperdine University
1964 - B.S. Geology, Villanova University

Military Schools:
1990 - Capstone Course, National Defense University, Washington, D.C.
1981 - Industrial College of the Armed Forces, Washington, D.C.
1971 - Amphibious Warfare School, Quantico, Va.
1967 - Naval Flight School, Pensacola, Fla.
1964 - The Basic School, Quantico, Va.

Assignments:
1992 - Deputy Commander/Chief of Staff, U.S. Forces, Japan, Yokota Air Force Base, Japan
1991 - Commanding General, First Marine Aircraft Wing, Okinawa, Japan
1989 - Assistant Deputy Chief of Staff for Aviation, Headquarters Marine Corps, Washington, D.C.
1988 - Aviation Plans and Policies, Aviation Department, Headquarters Marine Corps, Washington, D.C.
1986 - Commanding Officer, Marine Aircraft Group 26, New River, N.C.
1982 - Western Regional Branch, Plans Division, Headquarters Marine Corps, Washington, D.C.
1979 - Commanding Officer, Helicopter Medium Training Squadron HMT 301, 3rd Marine Aircraft Wing, Tustin, Calif.
1978 - Commanding Officer, Marine Air Base Squadron 36, 1st Marine Aircraft Wing, Okinawa, Japan
1976 - Training Plans and Budget Branch, Training Division, Headquarters Marine Corps, Washington, D.C.
1975 - Aviation Training Plans Branch, Aviation Department, Headquarters Marine Corps, Washington, D.C.
1974 - Wargame Branch, Development Center, Quantico, Va.
1971 - Maintenance Officer, Marine Medium Helicopter Squadron 262, 1st Marine Brigade, Kaneohe, Hawaii
1970 - Squadron Pilot/Logistics Officer, Marine Medium Helicopter Squadron 364, 1st Marine Aircraft Wing, Republic of Vietnam
1968 - Instructor Pilot, Helicopter Medium Training Squadron, HMMT-302, 3rd Marine Aircraft Wing, Tustin, Calif.
1967 - Platoon Commander, Company C/Company Commander, Company A, 1st Battalion, 5th Marines, 1st Marine Division, Republic of Vietnam
1965 - Platoon Commander, Company M. 3rd Battalion, 2nd Marines, 2nd Marine Division, Camp Lejeune, N.C.

(Revised Sep. 1, 1995 HQMC)

Mr. Chairman and Members of the Readiness Subcommittee:

Thank you for the invitation and opportunity to appear before you today to discuss Marine Corps readiness. I am pleased to report your Marine Corps is healthy and ready to meet its mission requirements. It continues to provide operationally ready, well trained and versatile forces.

Strategic Environment

Seventy percent of the planet is covered by water. Over ninety percent of U.S. exports go by water. Over one hundred and fifty countries are on the littorals. The earthquake belt is also along the littorals. The world is changing, but its economic, cultural and political centers of gravity remain positioned along the littorals of the world. Many of the world's most rapidly growing population centers and economic hubs lie within 200 miles of the littorals, especially the countries bordering the Pacific, Indian Ocean, and Persian Gulf.

Overseas bases and the number of U.S. military personnel stationed overseas continue to be reduced and overseas operational commitments are increasing. As we move toward an uncertain 21st century, the strategic role of the Marine Corps will be to provide a versatile expeditionary force-in readiness. The versatility and responsiveness of Naval forces to operate along the littorals, without the requirement for overflight and basing rights, makes them ideally suited to be the force of choice.

The Marine Corps role in the National Military Strategy is to provide a credible overseas presence, and power projection, conduct U.S.. peacetime engagement operations, and fight to win. Marines provide an initial crisis response and prepare the way for follow on forces.

Current Readiness

The Marine Corps provides Unified Commanders with expeditionary, forward deployed self-sustaining forces. "Expeditionary" is more than a term describing a set of capabilities. It is a mindset. "Expeditionary" means we can operate without host nation infrastructure because we carry what we need An expeditionary force can resolve a crisis or enable other warfighting capabilities to be built up and brought to bear.

Historically, an average of one-third of our infantry battalions, squadrons and combat service support units are deployed overseas on any given day, one-third has just returned, while one-third trains intensively for deployment. This is our normal operational tempo. It is what we do. Marines understand and accept these challenges.

The U.S. Theater commanders -- the regional Commanders-in-Chief (CINCs) -- have consistently called upon Naval forces to conduct a variety of operations. Whether it was humanitarian relief operations after the Kobe earthquake, assisting in the establishment of democracy in Haiti, crisis response in the Persian Gulf, amphibious withdrawal of UNISOM forces from Somalia, strike operations over Bosnia, or simply presenting "forward presence", naval expeditionary forces proved time and again their relevance in this uncertain strategic environment.

Marine Corps' units have responded to 44 separate contingency operations worldwide since 1991. Commitments have steadily increased and exceeded expectations. During 1995, Marine forces operating as forward deployed naval expeditionary forces conducted the following operations:

Kobe Earthquake	Jan	Provided relief supplies and engineering support for disaster relief.
Safe Passage	Jan/Feb	Provided security support for Cuban migrants from Panama.
United Shield	Jan/Mar	Executed the withdrawal of UNOSOM forces from Somalia.
Full Accounting	Mar/Apr	Supported on-going national efforts for accounting of POWs/MIAs from the Vietnam war.
O'Grady Rescue	Jun	24th MEU (SOC) conducted a TRAP mission under fire to rescue downed USAF pilot.
Deliberate Force	Aug/Sep	Provided air support enforcing UN resolutions declaring exclusion zones around safe-havens in Bosnia.
Vigilant Sentinel	Aug	Deployment in support of CENTCOM deterrence of Iraqi aggression.
Fairwinds	Nov/Pres	Providing security for Navy Mobile Construction Battalion and USAF engineer unit, work site, camp site, and convoys in Haiti.
Joint Endeavor	Dec/Pres	Providing theater reserve for USCINCEUR and SACEUR in support NATO operations to implement the military tasks of the Dayton Peace Accords.

Counter Drug Operations

The Marine Corps was actively engaged in providing assistance to the Nation's "counterdrug effort". Marines participated in 74 counterdrug (CD) missions along the U.S. Southwest border in support of Joint Task Force Six (JTF-6). Of these, 57 percent were completed by Marine Reservists from the Fourth Division/Wing Team. Individual Marines and units assigned to the CD missions perform a supporting role to local and Federal law enforcement agencies that are responsible for making apprehensions and/or arrests of suspected traffickers.

Typical Marine support missions have included: listening and observation posts, small construction engineer projects, diver hull inspections, vehicle cargo inspections, linguist support, intelligence analysis support, ground-based radar support and aviation support.

Exercises

During Fiscal Year 95, Marines participated in 297 Service, Joint, and Combined exercises. These exercises are categorized as live fire, field training, command post, or computer assisted and vary in size from small unit to those employing a division/wing size or Marine Expeditionary Force (MEF).

Participation in realistic Service, Joint, and Combined exercises ensures that the Marine Corps will remain a ready, relevant, and capable force. Service exercises, such as Combined Arms Exercises (CAX), develop and test individual and collective training and operational skills. Through Joint and Combined exercises, such as Native Fury (Kuwait) and Cobra Gold (Thailand), the Marine

Corps improves upon its ability to rapidly project forces globally, providing trained, interoperable forces to the Combatant Commanders.

Contingencies

The Corps remains this nation's "force of economy" and a "force-in-use". On average, over 23,000 Marines are routinely deployed in support of the national strategy. Scheduled commitments are funded from operations and maintenance accounts. This means the costs of short term contingencies involving our forward deployed rotational units can be absorbed within the budget. There is no need for a supplemental request for this capability. However, long term and large scale crisis response operations require supplemental funding if operational training and maintenance are to remain on track. These costs are relatively small in comparison with the other services.

Only $8.8 million of DoD's projected $2.8 billion request for contingency operations in Fiscal Year 96 was for Marine forces. Assuming supplemental funding for contingency operations is received in a timely manner - as happened last year - there should be minimal if any impact on readiness.

Readiness Trends

Personnel

The Marine Corps end strength is 174,000 active and 42,000 reserve Marines mandated by our national strategy and the Defense Planning Guidance. This is the minimum force necessary to

meet our peacetime and contingency requirements. The operational forces assigned to the unified commanders consists of approximately 113,000 active duty Marines. These Marines provide the forward presence for crisis response, humanitarian assistance, disaster relief, or other missions required by national authorities.

Training Readiness

Producing Marines who can adapt and who are not afraid to "think outside the box" is essential on the today's battlefield. This kind of thinking is achieved by high quality recruiting, training and education. We are placing renewed emphasis upon Professional Military Education (PME) at all levels.

We are replacing our old and resource-intensive Tactical Warfare Simulation Evaluation and Analysis System (TWSEAS) with the emerging Marine Air Ground Task Force (MAGTF) Tactical Warfare Simulation (MTWS), which will serve as the centerpiece of our MAGTF Staff Training Program. That system will be introduced into the Marine forces in the very near future. Skill training of the individual Marine has been reaffirmed in the purchase of an Indoor Simulation Marksmanship trainer (ISMT). This system will substantially improve individual and crew served weapons training as well as offsetting some of our training ammunition requirements. This training will be augmented by an urban area combat simulator called Team Tactical Engagement Simulator (TTES).

MPF Readiness

The ability to sustain forward presence virtually independent of any infrastructure is one of the most important elements of our crisis response capability. It provides an ability to engage upon arrival and sustain operational maneuver. Currently we can sustain and reinforce any committed Marine Air Ground Task Force.

Historically the Maritime Prepositioning Force (MPF) ships maintain a 99 percent readiness rate. The readiness and utility of the Maritime Prepositioning force has been demonstrated in the Gulf War, Somalia, and other humanitarian operations. Most recently the MPF was deployed to the Gulf to deter Iraqi aggression. The increasing use of MPF in Military Operations Other Than War (MOOTW) and lessons learned during the Gulf War created a requirement to enhance this capability. The three ship Maritime Prepositioning Force Enhancement Program (MPFE) will carry additional equipment and supplies to include: an expeditionary airfield, Naval Mobile Construction Battalion and fleet hospital equipment.

Future Readiness

The budget is adequate to strike the balance between current and future readiness. Procurement funding over the FYDP will begin to approach the levels needed for sustaining long-term readiness in Fiscal Year 99, and, if realized, will help to ensure our readiness into the 21st Century. Modernization is a central part of the overall readiness picture if we are to be capable of meeting the tasks laid down in the national military strategy.

Ground Equipment

Since 1995, the Marine Corps has exceeded its goal of 90 percent in equipment readiness, despite the high usage and increased manhours to maintain aging equipment. To effectively execute Operational Maneuver from the Sea (OMFTS) our ground modernization priorities are:

- Advanced Amphibious Assault Vehicle (AAAV)
- JAVELIN medium range antiarmor missile
- Lightweight 155 Howitzer
- Medium Tactical Vehicle Remanufacture (MTVR)

Aviation

Marine Aviation provides the MAGTF Commander enormous flexibility, mobility and firepower day and night. Our aviation equipment readiness also remains at planned goals. Marine TacAir recapitalization efforts are being focused upon maintaining the current type / model / series aircraft until the Advance Short Take Off Vertical Landing and Joint Advance Strike Fighter are fielded. AV-8B remanufacture gives us a production AV-8BII at 77 per cent procurement cost. Our F/A-18D is becoming an early modernization issue due to unexpected high utilization in the ongoing commitment to Bosnia. Marine Rotary Wing modernization efforts are to replace the aging CH-46 medium helicopter with the MV-22 Osprey. This will permit self-deployability, reduce strategic lift and take us twice as far twice as fast as a conventional helicopter. The AH-1W (4BW)) / UH-1N (4BN) Upgrade will extend and improve our attack helicopter capability.

Readiness Indicators

The measuring and assessing of readiness in our operational forces continues to be a high priority. However, readiness remains complex and difficult to precisely quantify.

Status of Resources & Training (SORTS) is the DoD common standard for reporting personnel, supplies/equipment, training, and equipment condition. SORTS reports provide a relatively accurate assessment of readiness. It is a "snapshot" of the commander's assessment at the time of the report. SORTS identifies potential deviations from the other Marine Corps reporting systems, particularly in equipment and supply. Whenever feasible the SORTS reports are then compared to the information contained in the other reporting systems. Some deficiencies exists in SORTS. Together with the Joint Staff, we are making improvements in reporting accuracy, increasing reliability and timeliness of the SORTS system.

The Marine Corps Training and Exercise Employment Plan (MCTEEP) is an operations unit level management tool that will be able to provide the commander with training and cost, and measure unit tempo. MCTEEP will augment SORTS information. It is currently in the field, at the unit level, capturing training events. As MCTEEP matures, it will link events to resources. Once data is fully collected at a unit, it may be used to forecast future readiness.

The Marine Corps has also contracted an effort to develop readiness indicators and metrics which will be utilized by MCTEEP and other reporting systems. Measuring and assessing readiness is

not a science. All tools are complementary. In the final analysis, the assessment of readiness eventually becomes a judgment call regarding the interpretation of data and facts. The commander's personal evaluation is an integral and important element in the assessment process.

Conclusion

The most important thing your Marine Corps will do for out nation is to "make Marines and to win battles." Today's Marine Corps is ready. With the advantage of forward deployment, ability to respond to fast breaking events, and precise measures of escalation control, Marine and Navy expeditionary forces will be the force of choice for the littoral regions of the world.

The nation's "force of choice" is also the nation's "force of economy". We will remain this, providing a substantial portion of the ready ground and aviation forces by continuing to "forward" fund our deploying units from our Operations and Maintenance accounts. However, long term contingencies and large scale crises response require supplemental funding.

The Fiscal Year 97 Budget funds readiness and manpower over modernization. Modernization is a critical part of the overall readiness picture if we are to be capable of meeting all tasks. The funding levels as projected in the FYDP must be maintained to ensure our transition into the 21st Century.

Today the Marine Corps is ready to execute its peacetime, wartime, and contingency tasks. We are ready because our Marines are ready. They are well-led, well-equipped, and well-trained. They believe in their Country and Corps. They believe that we care about them and their families.

They believe that we will provide them with the resources to maintain and sustain force readiness. It is our duty to affirm their beliefs by all necessary actions to assure the certainty of their readiness in an uncertain world.

Mr. BATEMAN. General Eberhart.

STATEMENT OF LT. GEN. RALPH E. EBERHART, DEPUTY CHIEF OF STAFF FOR PLANS AND OPERATIONS, U.S. AIR FORCE

General EBERHART. Sir, it is an honor to be with you today and to discuss our U.S. Air Force. In the interest of time, and with your permission, I would like to submit my opening remarks for the record.

I echo what my colleagues have said and say that our U.S. Air Force is ready. The civilians, officers, and enlisted are well equipped, highly trained, and highly motivated to fight and win our Nation's wars jointly.

Thank you, sir.

[The prepared statement of General Eberhart follows:]

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE

HOUSE NATIONAL SECURITY COMMITTEE

SUBCOMMITTEE ON READINESS

SUBJECT: FORCE READINESS

STATEMENT OF: LT GENERAL RALPH E. EBERHART

MARCH 19, 1996

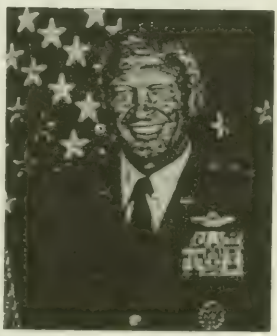
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BIOGRAPHY

UNITED STATES AIR FORCE

Secretary of the Air Force
Office of Public Affairs
Washington, D.C. 20330-1690

LIEUTENANT GENERAL RALPH E. EBERHART



Lieutenant General Ralph E. "Ed" Eberhart is the deputy chief of staff for plans and operations, Headquarters U.S. Air Force, Washington, D.C. He is responsible to the secretary of the Air Force and the chief of staff for the planning, operations, requirements and force structure necessary to support the warfighter with air and space power. As the Air Force operations deputy to the Joint Chiefs of Staff, he determines operational requirements, concepts, doctrine, strategy, training and the assets necessary to support national security objectives and military strategy.

The general entered the Air Force in 1968 as a graduate of the U.S. Air Force Academy. His staff experience includes serving as director, J-8, the Joint Staff; director for programs and evaluation, Headquarters U.S. Air Force, Washington, D.C.; deputy chief of staff for inspection, safety and security, Headquarters Tactical Air Command; and executive officer to the Air Force chief of staff. He has commanded both a fighter squadron and wing. As commander of the 363rd Tactical Fighter Wing during Desert Shield, he established the theater's initial air-to-ground combat capability from a forward operating location. He is a member of the Council of Foreign relations. A command pilot, he has logged more than 4,000 hours in fighter and trainer aircraft, including 300 combat missions as a forward air controller in Vietnam.

General Eberhart and his wife, Karen, have two daughters, Erika and Jessica.

EDUCATION:

1968 Bachelor of science degree in political science, U.S. Air Force Academy, Colorado Springs, Colo.
1977 Master's degree in political science, Troy State University, Ala.
1987 National War College, Fort Lesley J. McNair, Washington, D.C.

ASSIGNMENTS:

1. August 1968 - August 1969, student, undergraduate pilot training, 3615th Student Squadron, Air Training Command, Craig Air Force Base, Ala.
2. February 1970 - December 1970, forward air controller, 20th Tactical Air Support Squadron, Pleiku Air Base, South Vietnam
3. December 1970 - June 1974, instructor pilot, assistant flight commander, flight commander, T-38, commander, headquarters squadron commander, 71st Flying Training Wing, Air Training Command, Vance Air Force Base, Okla.
4. June 1974 - June 1975, resource manager, Air Staff training program (ASTRA), special category management section, rated career management branch, Headquarters Air Force Military Personnel Center, Randolph Air Force Base, Texas
5. December 1975 - February 1977, flight commander, instructor pilot, F-4E, 525th Tactical Fighter Squadron, USAFE, Bitburg Air Base, West Germany
6. February 1977 - December 1978, instructor pilot, standardization and evaluation flight examiner, assistant chief, standardization and evaluation, F-4E, 50th Tactical Fighter Wing, USAFE, Hahn Air Base, West Germany

7. January 1979 - July 1980, action officer, readiness initiative group, directorate of operations; chief, executive committee, congressional and external affairs division, Air Force Budget Issues Team, directorate of plans, Headquarters U.S. Air Force, Washington, D.C.
8. July 1980 - June 1982, aide to commander in chief, Headquarters U.S. Air Forces in Europe, and commander, Allied Air Forces Central Europe, Ramstein Air Base, West Germany
9. September 1982 - May 1984, commander, 10th Tactical Fighter Squadron, assistant deputy commander for operations, 50th Tactical Fighter Wing, USAFE, Hahn Air Base, West Germany
10. May 1984 - July 1986, executive officer to the Air Force chief of staff, Headquarters U.S. Air Force, Washington, D.C.
11. July 1986 - July 1987, student, National War College, National Defense University, Fort Lesley J. McNair, Washington, D.C.
12. July 1987 - October 1990, vice commander, then commander, 363rd Tactical Fighter Wing, Tactical Air Command, Shaw Air Force Base, S.C.
14. October 1990 - February 1991, deputy chief of staff for inspection, safety and security, Tactical Air Command, Langley Air Force Base, Va.
15. February 1991 - February 1994, director, directorate of programs and evaluation, Headquarters U.S. Air Force, Washington, D.C.
16. February 1994 - June 1995, director, force structure, resources and assessment (J-8), Joint Staff, Washington, D.C.
17. June 1995 - present, deputy chief of staff, plans and operations, Headquarters U.S. Air Force, the Pentagon, Washington, D.C.

FLIGHT INFORMATION:

Rating: Command pilot
Flight hours: More than 4,000 hours
Aircraft flown: O-2, T-38, F-4E, RF-4C and F-16

MAJOR AWARDS AND DECORATIONS:

Defense Distinguished Service Medal
Distinguished Service Medal
Legion of Merit with oak leaf cluster
Distinguished Flying Cross
Defense Meritorious Service Medal
Meritorious Service Medal with two bronze oak leaf clusters
Air Medal with two silver oak leaf clusters and bronze oak leaf cluster
Air Force Commendation Medal
Presidential Unit Citation
Joint Meritorious Unit Award
Air Force Outstanding Unit Award
Combat Readiness Medal
National Defense Service Medal with bronze service star
Vietnam Service Medal with three bronze service stars
Air Force Overseas Ribbon - Short
Air Force Overseas Ribbon - Long with bronze oak leaf cluster
Air Force Longevity Service Award Ribbon with four bronze oak leaf clusters
Small Arms Expert Marksmanship Ribbon
Air Force Training Ribbon
Republic of Vietnam Gallantry Cross with Palm
Republic of Vietnam Campaign Medal

PROMOTIONS:

Second Lieutenant	Jun 5, 1968	Lieutenant Colonel	Nov 1, 1981
First Lieutenant	Dec 5, 1969	Colonel	Nov 1, 1984
Captain	Jun 5, 1971	Brigadier General	Mar 1, 1991
Major	Sep 1, 1979	Major General	Jul 1, 1993
		Lieutenant General	Jun 2, 1995

(Current as of August 1995)

Introduction

Good afternoon, Mr. Chairman and Members of the Committee. I appreciate this opportunity to appear before you today to discuss the readiness of the world's premier air and space force. As we approach the fiftieth anniversary of our Service, we are proud and honored to say: we are the nation's Air Force--the only American military institution organized, trained, and equipped solely to exploit air and space power in the defense of our nation. We are ready to fight and win our nation's wars. To that end, we are dedicated to providing America the most capable and efficient air and space forces possible--today and in the future.

Today's Air Force

The Air Force is very ready today, thanks to the nation's investment in force structure in the 1980s and Congress' continued support for current readiness and quality of life for our people. As the nation drew down its military forces following the end of the Cold War, the Air Force rapidly downsized its forces to meet Bottom Up Review (BUR) levels. We took advantage of the savings to ensure our forces were ready to meet the challenges of the new security environment. We're now at the point where we must begin to recapitalize the nation's Air Force if we are to ensure its long-term readiness into the 21st century. It is important to understand: today's modernization is tomorrow's readiness. At the same time, we must continue to invest in O&M, training and exercises to ensure the readiness of today's force. Moreover, our people are, and will continue to be, our most valuable asset. We must continue to focus on their well being and their quality of life.

Expertly trained and highly skilled men and women are the backbone of the nation's Air Force. Today, our Service has 396,000 members on active duty. 188,000 members in the Air

National Guard and Air Force Reserve, and 186,000 civilians. This year, 81,000 are forward stationed overseas and on average nearly 13,000 airmen are deployed in support of exercises and contingencies worldwide. Of that latter group, nearly 9,000 are currently deployed, and we anticipate that number increasing as we support major contingency operations overseas, such as Operation JOINT ENDEAVOR and Air Expeditionary Force (AEF) deployments. These forces demonstrate U.S. commitment, readiness, and resolve--not over the horizon, but in direct contact--24-hours a day.

When called, the talented, professional, and ready, men and women of the nation's Air Force respond. During the past year, that meant delivering medical supplies to Albania, flood relief to Germany, and earthquake relief to Japan. It also included supporting United Nations (UN) mandates in Operations DENY FLIGHT, PROVIDE PROMISE, DELIBERATE FORCE, and JOINT ENDEAVOR over Bosnia; Operation PROVIDE COMFORT over Northern Iraq; Operation SOUTHERN WATCH over Southwest Asia; Operation SAFE BORDER patrolling the border separating Ecuador and Peru; Operation JTF-BRAVO in Honduras; Operations UPHOLD DEMOCRACY and SEA SIGNAL in the Caribbean; and supporting the UN Mission in Haiti.

The Air National Guard and Air Force Reserve have played an important role in supporting contingency operations. As the pace of operations increase, we rely even more on our Air National Guard and Air Force Reserve partners. They serve side-by-side with active duty airmen, performing the full range of missions that support joint and multinational operations. Theater commanders welcome the contributions of our Guard and Reserve units because they know these outfits are well equipped and expertly trained. With the dedication of our citizen airmen and with initiatives like associate flying programs, the Air National Guard and Air Force Reserve are integral to the success of the Total Force.

Air Force civilians are also key members of our Total Force team. From the flightline to the control room to the launch pad to the headquarters, our civilians give us functional expertise and institutional stability--they are our corporate memory. Some deploy with our combat forces,

while others provide stability at home as our military forces deploy. In addition, as service members move between assignments, our senior civilians provide continuity in leadership, particularly during periods of high turnover.

Today, according to the Status of Resources and Training System nearly 90% of our units are combat ready and possess the resources and training to accomplish their war-time missions. This percentage has remained stable over the last four years. This means the nation's Air Force--Active, Guard, Reserve, and civilian--is fully ready to fight and win our nation's wars.

People First

We are convinced that putting people first is the best way we can guarantee the readiness of our force. To ensure we recruit and retain the right people, we will continue to reward the challenges of this profession with an equitable quality of life. In FY 95, 98.9% of our accessions held high school diplomas and that trend continues today. In addition, 83.8% scored above the 50th percentile on the Armed Forces Qualifying Test (AFQT). While we met our accession goal in FY 95, it was difficult, and recruiting will continue to require attention in the future. And, while our current reenlistment rates exceed the Air Force goals (55% for first term and 75% for second term), we continue to watch them closely for any negative trends.

Readiness and quality of life are inseparable. This year we conducted the first ever hands-on, computerized *Quality of Life Survey* of everyone in the Air Force. This survey identified strengths and weaknesses among Service efforts to assure our people an acceptable quality of life. On a positive note, many of our people intend to make the Air Force a career. On the other hand, many had concerns, such as the high Operations Tempo (OPTEMPO) of their units.

To assure a balanced approach, the Air Force continues to support its *Quality of Life Strategy,* focusing on seven priorities: compensation and benefits, safe and affordable housing, health care, balanced Personnel Tempo (PERSTEMPO) and OPTEMPO. community and family programs, retirement benefits, and educational opportunities.

Compensation and Benefits

One of the fundamental requirements for maintaining an all-volunteer force is ensuring military compensation. To help maintain a quality force, the Air Force supports full statutory pay raises through the FYDP as proposed in the President's budget.

Housing

Like most Americans, members of the Air Force want to live and raise their families in comfortable homes in secure neighborhoods. Unlike most Americans, however, airmen must live where their orders take them in support of worldwide deployments and contingencies. It is vital for all airmen, particularly junior members, to have access to safe, affordable housing. Air Force people do not expect to live in luxury. Simply, they want to be able to place their families in housing that will give them peace of mind when they are deployed.

Dormitory improvements for single and unaccompanied personnel are another key part of our housing problem. The Air Force strongly supports OSD's one-plus-one standard for single and unaccompanied dorms, an initiative aimed at enhancing individual performance while assuring personal privacy.

Health Care

Airmen rank quality health care for their families as their number one non-cash benefit. To alleviate stresses on the military health care system and mitigate the financial burden on military members, the Air Force supports the current TRICARE program. This program requires neither user fees in Military Treatment Facilities nor enrollment fees for active duty families. TRICARE is the only program in today's economic environment that can assure military members and their families the broadest range of uninterrupted medical coverage--and we are committed to making TRICARE work.

Balanced PERSTEMPO and OPTEMPO

The OPTEMPO for many of our units remains high--and it will only increase as we are called upon to support additional contingency operations. Four times as many Air Force people

are deployed today as in 1989 enforcing no-fly zones, maintaining air refueling bridges, supporting humanitarian operations on three continents, and helping stem the flow of illegal drugs. We are committed to supporting these operations. Concurrently, we are working to reduce high PERSTEMPO to below the maximum desired level of 120 deployed days per person per year.

The Air Force is employing three main initiatives to achieve this goal. First, we are using global sourcing to balance the workload across all active duty Air Force units, regardless of the theater to which they are assigned. In the case of USAFE A-10s, the support they received from ACC A-10s reduced their taskings by 40%.

Second, we, are reducing taskings on the systems where our people have the highest PERSTEMPO. That is, we prioritize tasks to determine which missions we can support, offer substitutions, or request relief. As an example, reduced AWACS taskings allowed them to recapture lost training and improve from 24 mission ready crews in December 1994 to the maximum of 40 mission ready crews by December 1995. In addition, we continue to look for force structure adds that can help to reduce OPTEMPO (like the two additional Rivet Joint aircraft), and fit within our budget constraints while supporting the National Security Strategy.

Third, we are using Air National Guard and Air Force Reserve volunteers to reduce active duty taskings and are integrating them into additional mission areas, such as AWACS, space operations, and information warfare. During FY95 the Guard and Reserve combined for nearly two-thirds of the mandays used during DESERT SHIELD, without a call-up. Air Combat Command has developed a successful scheduling process that has Air National Guard and Air Force Reserve participation in contingency operations planned through 1998.

As we rely more on Air National Guard and Air Force Reserve people, we must be prepared to extend to them appropriate services and benefits--to include those Guardsmen and Reservists serving on active duty for less than thirty-one days. This requires improved guidance,

full funding, and advanced scheduling to maximize volunteer availability and to ensure we can offer full benefits and protections regardless of the duration of active service.

In a Spring 1995 survey, Air Force commanders and first sergeants said that family readiness is directly tied to mission readiness. The Family Readiness Program provides special emphasis on family separations through a variety of services, including deployment preparation, support during separations, and reunion guidance. With the high number of deployments, these services have become an essential capability at many bases. They must be continued to ensure we support our airmen and their families.

Community Support and Family Programs

Community support and family programs also help the Air Force recruit and retain the right people. Our highest priority efforts in this area are to preserve commissary benefits, expand child care, and expand Services' activities.

Commissary savings are vital to the entire military community and are ranked second, behind health care, as the most valued non-cash benefit. Military members depend on commissary savings to extend already stretched military income.

The Air Force Child Development Program provides care for 45,000 children daily in child development centers, family day care homes, and youth center programs. The Air Force will continue to expand Air Force child care facilities to achieve the DoD goal of 80% of the requirement.

Services' activities directly support unit readiness through programs that enhance individual fitness, unit cohesion, and a sense of community. The Air Force will continue to expand and improve Services opportunities.

Retirement

The Air Force remains committed to the nation's military retirees. A solid retirement benefits package compensates for the extraordinary demands we place on our people over the course of a career.

Educational Opportunities

We also are committed to preserving and expanding educational opportunities. Tuition assistance has proven a valuable recruiting and retention tool, providing our airmen the means to obtain associate, undergraduate, and graduate degrees. The Air Force supports maintaining current Air Force tuition assistance levels. At the same time, the Montgomery GI Bill continues to be a success story. These self-improvement opportunities serve not only as incentives to our people but also lift them to greater levels of productivity. Ninety-five percent of those who enter the Air Force enroll in the Montgomery GI Bill program. However, many of those wishing to enroll in the current program are no longer eligible.

Training

To be combat ready in today's sophisticated fighting force, our people must remain highly trained. Realistic combat training is not a luxury--it is a necessity. We continue to train our forces the way they will fight. To keep our forces fit to fight, we must have access to training ranges. That access depends on cooperative use arrangements with those who have competing interests for the same land and airspace. For our part, we are committed to responsible custodial care, preserving the environmental and cultural uniqueness of our nation's resources. To guarantee that our combat aircrews remain prepared to meet the security needs of our nation, assured access to local training ranges and airspace is an Air Force priority.

Logistics

Logistic support plays a key role in force readiness. Today, we are making fundamental changes to the logistics process. The future of Air Force logistics will be characterized by a

streamlined infrastructure, short repair cycle times, and fast, time-definite transportation, resulting in a leaner inventory.

To improve logistic efficiency we are fundamentally altering the way we support our weapon systems. "Lean Logistics" (LL) is an integrated effort among maintenance, supply and transportation systems designed to provide the right part, at the right time, at the best price to the user. LL removes a whole tier of unit level maintenance support for highly reliable systems and uses commercial carriers and other procedures to move parts more rapidly and meet demand. This postures the Air Force to support forces at home or abroad with less investment in support, manpower, infrastructure and spare parts inventories. Due to these savings LL has the added benefit of reducing Air Force specific airlift requirements in the critical early days of a potential conflict, thus freeing up space for other Service's forces. Prudent, yet innovative, management of resources is a significant factor in continuing readiness.

In depot maintenance, we continue to work closely with DoD to determine the correct level of privatization. In the meantime, our current backlogs are manageable with no impact to readiness. In FY96 depot maintenance is funded at 84.6% of executable backlog, while FY 97 is projected at 95.4%. Readiness data also indicates we have sufficient spares to meet the strategy objectives and keep up with the pace of current operations.

The current pace of contingency operations has taken a steady toll on our bare base equipment (HARVEST FALCON/HARVEST EAGLE). Currently, 52% of our assets are available, 17% are in use, and 31% are in reconstitution. However, the program is adequately funded and, based on current contingency operations, reconstitution should continue at the same rate as today. Overall we see logistics as a key area, where innovative management is already beginning to pay dividends.

Facilities and Infrastructure

Proper facilities and facility maintenance are critical to long-term readiness. The cumulative effect of minor problems can cause untimely and catastrophic failures or divert programmed funds to make critical, but unprogrammed, repairs. To accommodate a constrained fiscal environment, the Air Force has made a deliberate move to fix what we already have before building new facilities. We are currently funded to correct 100% of our Level I, or unsatisfactory, Real Property Maintenance (RPM) deficiencies by FY 98. Now that the base structure is stabilizing we are reinvesting overseas. Our bases in Korea and Japan received no Military Construction (MILCON) money from FY90-96. In FY97 we will begin reinvesting in overseas infrastructure with $10 million for dormitory facilities in Korea.. However, a proper level of funding for RPM and MILCON must be maintained throughout the FYDP to ensure quality of life for our people and adequate facilities to support mission accomplishment.

Building the Future Air Force

As good stewards of the nation's air and space forces, we have produced a ready, versatile, and tailored Air Force to support America's National Security Strategy. Our nation expects us to field air and space forces that provide the following capabilities: (1) conventional and nuclear deterrence; (2) long-range, lethal sustainable combat power; (3) rapid, global mobility; (4) global and theater situation awareness; (5) and information dominance. We have carefully constructed a balanced, time-phased modernization plan to underwrite these capabilities with an economy of force Air Force in the 21st century.

Near- Term Priorities

America's air mobility fleet gives our nation the speed and agility to respond to the full range of contingencies--from airlifting or airdropping troops and equipment during a crisis to delivering supplies after a natural disaster. *No other nation in the world has this capability.*

Our airlifters and tankers offer the CINCs the ability to influence operations throughout the theater. Our air mobility aircraft can deploy fighting forces or provide humanitarian assistance worldwide. They enable support forces to remain airborne longer and combat forces to strike deeper. They airdrop or insert troops and equipment, sustain operations throughout the theater, provide lift for critical supplies, and provide emergency aeromedical evacuation.

To ensure we maintain these capabilities, we must modernize the fleet. Our workhorse for the last 30 years, the C-141, has served us well but is nearing the end of its service life. That is why the C-17 is our highest priority near-term modernization program.

The November 1995 Defense Acquisition Board (DAB) decision to procure 120 C-17s was the right one for the nation. The C-17 will ensure we can meet airlift requirements during major regional contingencies--especially during the crucial first 30 days. With its ability to operate from small airfields and in hostile environments, to deliver oversize and outsize cargo to forward operating areas, and to increase throughput to the region, the C-17 is an essential resource for the warfighter. It has already proven its worth in operations from the Caribbean to Bosnia.

In February, the DAB made another decision that is right for the nation: it approved a C-17 multi-year procurement plan. This seven-year contract completes the Air Force requirement for 120 C-17 aircraft at the lowest possible price--clearly, this is the best value for America. This contract, if approved, will save the nation nearly $900 million.

We are also ensuring our other mobility assets remain viable. For example, we are modifying the Air Force's KC-135 air-refueling fleet and the C-5 force to improve performance, reduce maintenance required, and reduce operating costs.

Our rapidly deployable fighter forces provide us the staying power to overwhelm an opponent's forces, infrastructure, and command elements. To maintain the robustness of our fighter forces and continue to support high-tempo, worldwide operations, we must continue our

ongoing F-15E and F-16 recapitalization programs and fleetwide high leverage system enhancement efforts.

Mid- Term Priorities

Conventional bomber upgrades and smart munitions improvements are Air Force mid-term modernization priorities. Our bomber roadmap is starting to come together. With continued upgrades, our planned bomber force of B-52s, B-1s, and B-2s will sustain deterrence, provide flexible, sustainable long-range combat power, and demonstrate resolve with their global presence capabilities well into the next century. As our highest mid-term modernization priority, the integration of precision munitions and other conventional upgrades to our bomber fleet will provide the U.S. with a high leverage force by the turn of the century. The B-2, for example, will have an accurate capability with the GATS/GAM (GPS-aided Targeting System/GPS-aided Munition) this July: furnishing us a near term capability to independently target 16 separate aimpoints on a single pass. Our modern bombers provide a force we can capitalize on for defense of the nation, for rapid crisis response, and warfighting. Air Force bombers provide the National Command Authority with a unique long-range, lethal precision strike capability no other force can match.

Critical to the effectiveness of our bombers and our fighters is the continued development and procurement of smart and precision guided weapons. Stand-off, smart weapons extend the range, increase the lethality, and improve the survivability of older and newer aircraft alike. The Joint Direct Attack Munition (JDAM), Joint Stand-off Weapon (JSOW), and the Joint Air-to-Surface Stand-off Missile (JASSM) provide a balanced and affordable approach for increasing the versatility and lethality of Air Force, Navy and Marine Corps aircraft.

JDAM will significantly improve our ability to conduct adverse-weather, around the-clock operations. JDAM adds an Inertial Navigation System and GPS-guided nose and tail kit to the MK-84 general purpose and BLU-109 penetrator bombs. JSOW is a 1000 pound class accurate glide weapon which provides us a low cost option for attacking highly defended targets from

intermediate stand-off ranges. JASSM is a precision long-range stand-off weapon designed to penetrate and attack targets in high threat areas. JASSM will significantly increases our capability to hit critical, high value targets in the early stages of a conflict.

Long- Term Priorities

The F-22 is our most important long-term modernization priority--the need for air superiority is unquestioned. The F-22 will guarantee air superiority well into the next century. The unique capabilities of the F-22 will enable the Air Force to dominate aerial environments--operating at will over hostile or contested territories, attaining unprecedented first-look, first-shot, first-kill successes, while protecting the many high-value assets necessary for success in modern military operations.

The Joint Strike Fighter (JSF) is another critical Air Force long-term modernization effort. Many of the technological advances that make the F-22 revolutionary also serve as critical components for the JSF our F-16 replacement. The JSF program will result in a family of affordable fighter aircraft capable of meeting the future warfighting requirements of the Air Force, Navy, and the Marine Corps.

The Air Force plan to acquire the CV-22 for Air Force Special Operations Forces complements conventional deep strike assets, such as the F-22 and JSF, by providing long range combat search and rescue (CSAR) as well as deep battle airlift. While the F-22, JSF and CV-22 will provide the CINCs potent offensive tools to counter those threats, the Airborne Laser (ABL) will provide an equally potent defensive tool.

Operation DESERT STORM demonstrated the potential of theater ballistic missiles to serve as an effective delivery means for weapons of mass destruction (WMD). Our current approach to counter this threat integrates complementary capabilities from the different Services to create a multi-tiered defense consisting of attack operations, boost-phase interceptors, and terminal defenses. ABL will provide a boost-phase intercept capability to destroy ballistic missiles over an aggressor's territory.

On-Going Priorities

Several modernization programs transcend our time-phased approach. Along with the Department of the Navy, we are procuring a new training aircraft--the Joint Primary Aircraft Training System (JPATS). The recently selected Beech MkII aircraft meets or exceeds every Air Force and Navy requirement at an affordable life-cycle cost. With its pressurized cabin, advanced navigation suite, and state-of-the-art propulsion system, the JPATS will better prepare our future pilots to fly advanced aircraft. Acquisition of JPATS will improve commonality with the Navy, support on-going efforts to consolidate Air Force and Navy flight training, and improve overall safety.

Air Force modernization programs reflect the need to provide the nation continuous, assured access to space. The Evolved Expendable Launch Vehicle (EELV) will help us maintain that access. EELV is an evolutionary launch system that will be designed to deploy a broad range of spacecraft and support increasingly demanding launch requirements. It is expected to lower the cost of both military and commercial access to space and ensure the long-term competitiveness of America's commercial launch industry.

The Space-based Infrared System (SBIRS) is another key system that will improve the CINCs' ability to defend against theater ballistic missiles. As a replacement for the Defense Support Program (DSP), SBIRS will enable U.S. and allied forces to detect targets, such as theater ballistic missiles, sooner and at lower altitudes, enabling allied forces to destroy them at longer ranges. As a result, the warfighter will possess an even greater ability to neutralize the theater ballistic missile threat.

SBIRS is part of the information age technology that will give theater level commanders increased opportunities to influence operations in real or near-real time. Such information technologies can be a powerful force multiplier, offering offensive and defensive applications. As a result, the Air Force is placing increased emphasis on electronic combat and distributed information networks to enable decentralized execution of air operations.

High Leverage Player on the Joint Team

We continue to enhance operational relationships with the Army, Navy, and Marine Corps in many areas, but nowhere are these ties more evident than in Air Force platforms providing joint Command, Control, Communications, Computers, and Intelligence (C4I). Air Force systems, such as AWACS, Joint STARS, RC-135s, U-2s, UAVS, and theater battle management core systems, provide comprehensive situation awareness, early warning, and detailed real-time targeting information for all warfighters.

Our interaction with the other services is not one-way. We also depend on key capabilities they provide. By FY 99, the Air Force will depend largely on the Navy's EA-6B for stand-off jamming, replacing the EF-111. Savings from this decision will offset upgrade costs for the EA-6B. Similarly, the services share a responsibility to defend against theater ballistic missiles. Army and Navy systems provide terminal defense against theater ballistic missiles, while the Air Force concentrates on attack operations and boost-phase intercept options to ensure the CINCs possess an effective defense against theater ballistic missiles.

The Net Result

Our modernization plan, which supports our strategic vision of providing *Global Reach-Global Power* for the nation, will enable us to keep providing force options across the spectrum of conflict. We have made tough decisions, weighing technological advantages against affordability. We have structured our programs for stability. Stability is vital to producing the best systems at the lowest possible cost. Most importantly, we have carefully sequenced our programs to balance year-to-year affordability concerns, readiness, and technical feasibility. This is the right plan to ensure the nation's Air Force continues to meet National Military Strategy requirements.

We cannot become confused about the fundamental purpose of our armed forces. That purpose is to fight and win our nation's wars. As we reshape and train our forces, it must be for that purpose above all else.

Today, we are ready to fight and win our nation's wars. We have in hand those modernization and training efforts necessary to sustain that capability in the decades ahead. In the future as in the past, the nation's Air Force will provide *Global Reach-Global Power* to help shape the world our children will live in.

Mr. BATEMAN. Thank you all for your opening statements, and I think it is fair to observe that this is almost a Virginia day in the Readiness Subcommittee, three out of four of the members present being from Virginia. We are delighted to have Mr. Tejeda here representing the Great Lone Star State along with the Virginians.

The statements you have made are certainly, obviously, encouraging to us, but I wonder if you have some concerns as to how long you can sustain your state of readiness through the operational tempo that you are now experiencing and which you have experienced for the last year or more. And what may happen if—and heaven forbid we hope it won't happen—other contingencies loom their heads and perhaps even those more serious than the ones we are presently engaged in from the military point of view?

Do you have any concerns about sustaining the operational and personnel tempo that you are now dealing with, General?

General SHINSEKI. Sir, let me address that by going back to a point I made in my opening comments about 495,000 soldiers. Sustaining the tempo is very much a factor of the quality of the force that we do have. And, as busy as we are, we find youngsters who are in Bosnia who also served in Haiti and Somalia, and there is an impact. A number less than 495,000 increases that kind of tempo, and that is why the Army feels that that is the right number for the national military strategy. But it also is the right number in enabling us to look at the quality of the force that we have, and retain that kind of quality because there is no indication that the tempo will go down. And it will take those kinds of great Americans to be able to sustain the pace.

Mr. BATEMAN. Admiral Lopez.

Admiral LOPEZ. Yes, sir. We think we can sustain the OPTEMPO that we have. We are budgeted to do that internally within the Navy, but we need to maintain the current level of forces.

The Navy is small enough. I think from the statement I made earlier with the OPTEMPO of our ships being up about 25 percent in the last 2½ years, we believe we can sustain that, but we are watching it very carefully to make sure that it does not have any retention impact on our personnel; that the wear and tear on our machines as well is not overdone. It is something that we are being very careful with, but we are comfortable for the present.

Mr. BATEMAN. General Blades.

General BLADES. Mr. Chairman, as part of the Navy-Marine Corps team, organized with the amphibious readiness groups, we have established a long-term cycle, historical long-term cycle, and we believe by maintaining our contingencies within that cycle and supplementing contingencies with additional forces that we require that we can sustain the contingency requirements levied over us over a long period of time.

We also believe that because of the funding cycle, as with the Navy, we take that out of our funding before we deploy and, therefore, we believe that we can sustain it and keep the budgets very low.

Mr. BATEMAN. Lieutenant General Eberhart.

General EBERHART. Sir, in the Air Force we would agree. We believe that important to this OPTEMPO is to continue to receive the

funding support that underwrites it, that doesn't take away from other O&M accounts to ensure that we still get the required training that we need to once again fight and win our Nation's wars.

And then, finally, for those small fleet sizes, the high demand forces we have, like AWACS, we have been careful how we parcel these out to make sure that we maintain the training base. As you know, the experience that we had with AWACS over the last couple of years——

Mr. BATEMAN. One of the things that is a matter of greatest concern is your modernization accounts and the funding stream that is presently contemplated and the adequacy of it.

Today, we will not focus so much on that because it becomes more a matter of procurement than this subcommittee, but I think all of you probably share the concerns that we have heard from the Joint Chiefs with respect to modernization and recapitalizing, reequipping all of our forces.

It is also necessary to ask you if you are comfortable with the level of deferred maintenance of your infrastructure, because I hear complaints and concerns that because of past contingency operations and the way they were funded, that there is a lot of deferred maintenance that is taking place. And the longer it goes on, the greater that becomes and the more difficult the problem will become.

Do you have any concerns along those lines? Nobody has any concerns? You don't need to say anything if you don't have any.

General SHINSEKI. Sir, I would comment on the point of modernization as I reflected in the opening comments. We understand that we have a need there to invest and to pay attention to the modernization challenges that we have in front of us.

When I spoke of near-term readiness, we are really talking about operational training, the ability to execute our warfighting doctrine with the equipment we have today. When we talk about modernization we are really talking about long-term readiness, and that is the technological readiness to be able to match an adversary that, frankly, we do not see today. We think there is a window of opportunity between now and about the year 2010 before we expect to see a near-peer competitor, if I might use that term.

So, the Army is prepared to take risks both in downsizing, in retiring some old equipment that we currently have on the inventory that still have some capability but equipment for which the maintenance costs are exorbitant at this point, and we are prepared to take them out of the inventory and accept that we will go without until we can replace them. And then even look internally to the systems that we have said we have needed for modernization and to make some tough calls there as well.

So, we do have some concerns about modernization and we think that we are doing the prudent thing with regard to risk and trying to assess what our opportunities are in the next 15 years.

Admiral LOPEZ. In short-term maintenance, we watch that very carefully, the ship and aircraft maintenance, because of the OPTEMPO.

So much has changed since 1991 when the Soviet Union ceased existing. From our perspective, the commitments and the need for mobility and flexibility have increased, and although we are meet-

ing all of those commitments and we are quite comfortable with where we are, as I have said in readiness, it is something that we watch on a daily basis and we just have to stay up with it.

We think we have enough money right now to fund our ships' maintenance and air maintenance accounts, but it is a day-to-day thing that will be a concern, I think, for some time in the future, unless contingency operations and that sort of thing cease. And, from my perspective, I don't think they will.

I echo my Army counterpart's concern for the future. We cannot have a future readiness if you don't modernize, so I see future readiness linked to that, and with the long-term shipbuilding and aircraft procurements that we have, we are comfortable for now. But, again, we need to continue to watch that and see where we go from here.

General BLADES. As you indicated, Mr. Chairman, we have sort of defined the current readiness as near-term readiness. Mid-term and long-term would be the modernization underpinned by quality of life in the long-term.

Right now I believe that the budget is adequate to strike the balance between our current and future readiness concerns. We believe that procurement over the FYDP will begin to approach the levels needed for funding and sustain long-term readiness through fiscal year 1999. If realized, and these goals are maintained, they will ensure our readiness into the 21st century.

But as you also indicated, which has been reflected in other documents, modernization is the central part of our overall readiness as the equipment begins to age and begins to be consumed and the higher OPTEMPO and the higher numbers of contingencies we are responding to. If that is met, we believe that the current budgets will, in fact, address those concerns and maintain the readiness in the long-term force.

General EBERHART. Sir, when we look at our real property maintenance and our depot maintenance, we think they are properly funded at this time. Are we concerned? You bet we are concerned. We are also concerned whether we have calculated properly; that there will not be any unforeseen situations develop. As you know, that is when we have to work those problems in execution in the budget year.

But, as we strike that balance between readiness, modernization, and force structure, we think it is funded properly at this time.

Mr. BATEMAN. I thank you all.

Before turning to Mr. Sisisky for any questions he may have, let me offer you this observation and then ask for any response you want to make.

Each of the chiefs of staff of all of the services and the commandant indicated that the fiscal year 1997 budget request was marginally adequate in terms of O&M accounts. Some of us are not entirely sanguine when we hear your budgetary status as being marginally adequate. Assume for the moment that the Congress sees fit to increase the top line of the Defense budget and, therefore, it impacts upon the budget of each of the services. What additional O&M resources should we provide you in order to meet your priorities?

General SHINSEKI. Sir, I would say that the area of greatest need for the Army would be in modernization. There are some other requirements for infrastructure revitalization. There are barracks and real property requirements that have been deferred, and some investments that could be made in near-term readiness issues. But for the most part, our largest area for attention would be modernization and that is where we would apply that kind of additional help.

Mr. BATEMAN. Thank you, General. And I would certainly entertain your submitting for the record any reevaluation or any rethinking of what your priorities are so that as we move toward marking up a bill, we will be aware of it as we get from our chain of command that which we may have to deal with. But if we are going to have any money that may become available, we want to know that we are applying it to where it will do the most good.

[The following information was submitted for the record:]

READINESS PRIORITIES

Thank you for the opportunity to provide you with our priorities to facilitate your marks. As I said during the testimony, our priorities for additional dollars, should they become available, from the macro level are modernization, infrastructure revitalization, and near-term readiness.

Our specific Operations and Maintenance (O&M) priorities in the infrastructure revitalization area are barracks revitalization, real property maintenance (RPM), and power projection command, control, commuications, and computer infrastructure (PPC4I).

Our priorities in O&M for near-term readiness are investments in end-item management, ammunition management, strategic mobility, Defense Message System (DMS), and Title XI.

Admiral Lopez, any observations?

Admiral LOPEZ. Yes, sir, as the CNO has indicated, our top priority, of course, is to continue to modernize our force. There are places where if we had money whether that was in quality of life or the other O&M accounts, OBOSS, or real property maintenance where we have a need for additional moneys, but we have budgeted for what we have, and it is adequate, as the CNO expressed.

There are places like building piers and the OBOSS account, some areas in recruiting that we will budget and make adequate during this year. But, if I had extra money, I would buy ships, airplanes, and submarines.

Mr. BATEMAN. I would comment that Admiral Borda and the Secretary of the Navy have indicated a No. 1 priority to put the money in the budget that was not requested but which—well, the 99 submarine was requested but no money to pay for it.

Admiral LOPEZ. Yes, sir, that is our top priority.

General BLADES. Mr. Chairman, as you know, the commandant has indicated he supported the President's budget, and has indicated current funding for fiscal year 1997 is adequate.

As with any case, and as you had indicated, if there is additional moneys where you can gain efficiencies in production, where you can gain and increase the rate at which you change your timeline of profiles with regard to real property maintenance, procurement or other accounts, it would certainly be an opportunity to gain efficiencies that would save dollars in the long term.

Before I make any comments with regard to moneys, I would prefer to make that for the record and provide a written response.

[The following information was submitted for the record:]

HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON MILITARY READINESS
HEARING ON: FORCE READINESS
19 MARCH 1996

Congressman Bateman: If additional monies were provided, where can you gain efficiencies in production?

LtGen Blades: Efficiencies can be gained in the following programs either by procuring them earlier than planned or on production unit costs, if additional funds were provided in fiscal year 1997.

Procurement Marine Corps

	($ in millions)	
Item	Amount Requested	FYDP Savings in FY97$
Javelin	$20.0	$26.6
MILES 2000	49.0	7.8
AN/TPQ-36 Radar	3.8	0.8
Team Portable COMINT Sys	3.4	2.0
AAAV(R&D)	20.0	20.0
TOTAL:	96.2	57.2

Aviation

	($ in millions)	
Item	Amount Requested	FYDP Savings in FY97$
AV-8B	$56.0	$32.0
V-22	302.0	92.2
TOTAL:	358.0	124.2

HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON: READINESS
19 MARCH 1996

Chairman Bateman: Based on your earlier response that generally termed the FY 1997 budget adequate or marginally adequate, what budget additions would help if money were made available?

Lieutenant General Blades: As the Secretary has stated, the DoD budget strikes "a prudent balance between immediate military needs, such as high readiness and troop morale, and long-term investments, such as basic scientific research and the modernization of weapons and equipment." The Marine Corps budget supports today - a Marine Corps capable of meeting today's burgeoning operational requirements. To the extent we can pull forward other readiness, modernization and infrastructure investments, we free up room for essential modernization in FY 1998 and beyond, in order to build the Marine Corps for tomorrow and the day after.

Starting in FY 1999, we will begin to reverse this downward trend in Marine Corps modernization - a trend which absolutely must be reversed in order to ensure we continue to remain the Nation's expeditionary force-in-readiness in the next century.

In keeping with the Secretary's goal to begin a modernization "ramp up", our modernization requirements are constructed upon four of the Secretary's five basic objectives: To continue "leap-ahead" technology; to expand cost effective upgrades of existing systems; to continue enhancements to power projection capabilities; and, to ensure battlefield dominance. Specific programs which will ensure we achieve the Secretary's objectives are as follows:

In order to continue **"leap-ahead" technology**, we would accelerate the development of highly sophisticated new warfighting capabilities such as:

MV-22 (increases FY97 procurement from 4 aircraft to 6, with FY98 long lead from 7 aircraft to 12.)	$ 302.0M
AAAV	20.0
Commandant's Warfighting Lab	40.0
Telecommunications Upgrades	18.8
Non-lethals	3.0

Bio-Chem Defense unit	3.0

We would expand **cost effective upgrades** of the following existing systems:

AV-8B	$ 56.0M
Medium Tactical Vehicle Reman(MTVR)	3.0
LW 155 Howitzer	4.0
AN/TPQ-36 Radar Upgrades	3.8
Aviation simulators	60.0
Mobility enhancements	28.3

The following programs would ensure we **continue enhancements to power projection capabilities**:

MPF(E)	$ 250.0M
F/A-18D	255.0
KC-130J	196.0
CH-53E (NGRE)	64.0

And lastly, the following programs would ensure **continued battlefield dominance**:

Javelin	$ 20.0M
JTF Headquarters	1.7
Training Devices	58.2
Combat Operations Centers	6.0
Ammunition	98.0
Intelligence Upgrades	17.3
Wide-area mine clearing	2.5
Other miscellaneous equipment	9.8

Other readiness and infrastructure items which could be pulled forward are as follows:

Initial Issue	$ 35.7M
Ammo Rework	5.0
Maintenance of Real Property	193.0
Recruiting and Advertising	4.7
Base Operations	40.0
JTF Headquarters	5.0
Riverine Program	3.0
Combat Operations Center	5.0
Commandant's Warfighting Lab	8.0
Corrosion Control	10.0
Personnel Support Equipment	26.0
Off Duty Education	4.5
MWR Support	3.4
Child Care	3.5
Military Construction (Active)	97.4

Military Construction (Reserve)	23.1
Family Housing Improvements	6.0
Family Housing New Construction	72.0
Reserve O&M Support	7.5

Mr. BATEMAN. General Eberhart.

General EBERHART. At the risk of sounding like a record, we believe that if more money was added to the Air Force budget, in most every case we would spend that on modernization, bringing things forward from the outyears to, hopefully, gain some efficiencies.

If we said that that money was O&M money, O&M dollars, then we would, in fact, say that depot maintenance and real property maintenance would be our areas of concern.

Mr. BATEMAN. Mr. Sisisky, do you have any questions?

Mr. SISISKY. I have a whole range of questions, and a good part of them are to the Army, Mr. Chairman. And I have raised these before. One I haven't raised is the readiness of the 3rd Infantry Division in Germany with the deployment of troops in Bosnia, particularly as it regards senior level NCO's and low density military occupational specialties that may have had to deploy with the 1st Armored Division, and I understand they have also raided CONUS for NCO's. I don't know if it is true or not. I have raised the question with the Secretary of the Army and other people, and I haven't gotten an answer yet.

The Army is short in money in its personnel accounts which has resulted in the slowing down of promotions. To me, that concerns readiness. I am concerned about the effects such actions have on retention rates. And there is a problem in funding personal accounts, which is affecting promotions and potentially the retention of quality personnel, but I have heard directly that the NCO's have not been promoted and to me, from a long-term perspective, this is a real problem for the Army. It takes a long time to train first sergeants and people like that.

Do you know, General, whether that is true or not? Nobody seems to answer the question. I have raised it three times to OLA and I have not gotten the answer yet.

General SHINSEKI. Sir, I may be able to address the question, but if I am not able to satisfactorily answer it fully, I will be happy to provide additional information for the record.

I think you are aware that our method for equipping and providing personnel assets to the force recognizes the first-to-fight principle, and that is that the contingency divisions located here in CONUS receive the first priority for equipping and personnel fill. As a result, forward deployed divisions, the 1st Armored Division in this case, was not, prior to its deployment, at the kind of level that we would have liked to have deployed it.

Mr. SISISKY. You say the 1st Armored Division that went there was not ready? If that division wasn't ready, then we are really in trouble.

General SHINSEKI. No, prior to their deployment in terms of personnel fill and some key pieces of equipment that were required for this particular deployment—countermine equipment, for example. And so prior to the deployment some cross leveling occurred primarily in Europe out of 3–ID, as you indicated. And some key personnel requirements to cross level senior noncommissioned officers occurred. There was also an impact to other divisions across the force in order to bring the 1st Armored Division up to where we were comfortable with the deployment.

In terms of promotion slowdown, there was a period during which we did experience some promotion slowdown driven primarily by MPA, military pay issues, that occurred primarily in the November and December time frame. I am advised that we have gone through that and that the promotion rates have, again, picked up to where I believe we are doubling the promotion rates that were experienced in the November and December time frame. And I think by April we should be back on track with those promotions.

Mr. SISISKY. Let me ask all of you, do the services have sufficient funding for the fourth quarter of 1996 to adequately train and maintain all of its units and personnel?

I happen to have a training base in my district, Fort Lee, training logistics, and they seem to get cut every time. The training facilities seem to be the first ones that get cut when there is a problem, and it doesn't seem to be always the right thing to do. I know it happens, but is that true in the other services? Is there adequate funding in the 1996 fourth quarter?

General SHINSEKI. Sir, since you mentioned Fort Lee, may I be the first to respond?

I would say that we have taken dollars that were earmarked for the fourth quarter training events and used those dollars to underwrite the Bosnia contingency. We are looking for reimbursement to be able to apply those dollars back against those fourth quarter training events so we don't have to cancel them and that we can retain a sustained training pace that would deliver the readiness levels that we need to see.

Mr. SISISKY. That is really readiness? I mean, the training of people?

General SHINSEKI. It is, sir, and for the Army we see the estimate right now at about $1.8 billion for all contingencies; the majority of that is to Bosnia at approximately $1.7 billion.

Mr. SISISKY. The Army gets the most money and the Navy doesn't get very much money, Admiral Lopez, in that reprogramming.

Admiral LOPEZ. The Navy insofar as the fourth quarter, we have budgeted for what we need in training. The only thing I could say is that we always worry about the contingency operations impacting on training. But, in fact, the only one that has truly impacted on us has been Haiti and Cuba when *Eisenhower* was unable to complete all of our training and then had to do that en route to the Med, but we reported in fully ready to the Mediterranean. Otherwise, I think we are OK for the fourth quarter.

Mr. SISISKY. Anybody else?

General EBERHART. Sir, we will be dipping into the fourth quarter readiness accounts to underwrite those operations. Pending a supplemental or reprogramming action, it will certainly impact on our training and readiness in the fourth quarter of this fiscal year.

Mr. SISISKY. Admiral Lopez, you mentioned the carrier moving from the Mediterranean. Now, of course, we have a joint service agreement, and I commend you, where the Air Force has put into Jordan, which is a great thing to see happen. But that leaves the Mediterranean empty for 5½ months. I never dreamt that we would leave an area like that empty for 5½ months, which leads me to believe that we were probably wrong with the 12 carriers

and we probably need 13 carriers. That is difficult to get, but I do worry about that.

Are we planning to send another carrier out?

Admiral LOPEZ. At this time, no, sir, we are not. As you know, that is what we do. We move from one area to the other where we are needed.

Mr. SISISKY. Thank goodness they were nuclear carriers and they could move at high speed.

Admiral LOPEZ. Yes, sir, as you know, in order to satisfy the CINCs' priorities, if we were able to give full presence for all three CINCs that need it, it would require 15 carriers. However, if we had 13, it would alleviate some of the strain that we have in situations like today where you would have a little more presence there that is not available now.

Mr. SISISKY. We always send a battleship and never get them back.

Let me ask one more question which I think has an impact on readiness. There is something going around this town that really bothers me. I have been in debate now on this for a good many years, and I just entered the debate last week at the Pentagon with somebody who believes in privatization.

We have allowed privatization through this committee on some test bases, which I believe is important. But now, I understand, they want to privatize whole bases. I had to argue because one of them was the Norfolk Naval Base. They are talking about privatizing the whole base. And I thought that the Norfolk Naval Base, just like all the other bases, was based on a three-letter word called war. It is there for war.

I don't know how prevalent you see it, but I asked the question the other day, I said, if you do that why don't you put civilian sailors and get the Air Force to use civilian pilots in that thing, if you can control them. I just see a tendency happening and I think it is soon going to grow in large amounts the way I see it now.

I am not opposed to privatization in certain instances, but I am opposed to privatization as it affects the readiness of the services. I wonder if you have any comment on what you see as the future of privatization in the services?

Admiral LOPEZ. I guess I could take that first since you referred to the Norfolk Naval Base. I certainly agree with you that there are a number of functions that could be outsourced or privatized. I don't know of any plan to privatize the entire Norfolk Naval Base.

We are looking, as a matter of cost efficiency, to outsource or privatize wherever we can, within the constraints of the law. This will allow us whatever moneys we save to reinvest in our modernization account, and that is really the driving factor for us.

Mr. SISISKY. That is what really scares me is the short term to save money but in the long term, I mean, that is what you are all in uniform for. There is no other reason other than keeping peace in the United States, but in the case of war and if anyone would dare to do anything to us. And that is what scares me. Everybody is looking to the short-term savings that you are going to use for other things.

But let me tell you this, we have seen base closings that were going to save this amount of money, and it doesn't save it. To the

Air Force particularly, when you close two depots and privatize them and you still have all that space in your own thing, that is what scares me about this. And I am telling you, it is coming. You are going to get pressure all over. I think somebody in the military has got to speak up that this may not be the best thing for the future of the United States' armed services. And I don't believe it is, because you still have to pay them.

I'll tell a story, and this happened just last week; I went to the Pentagon on this argument on privatization, and I am usually never late. I was 15 minutes late, because they are digging up the river, and I couldn't find a parking space anywhere. So finally I pulled into a private space and the security guard said, we are going to have to tow you. I told them who I was and who I had a meeting with. And I said, here is my key. If you have a problem, we will send somebody down.

So I went up and I said, do you think that would happen with a marine guard who would do that or a civil service employee who would know better? But these are hired people. You get them cheaper, but is it as professional? And that to me is privatization to some degree. It just hit me and I told the person I was talking to that morning, that this is privatization in reality. I wasn't asking for any special privileges. All I was looking for is a place to park and every visitor's parking space was taken.

Does anybody else want to comment about privatization? I don't blame you if you don't.

Mr. MCKEON. Will the gentleman yield?

Mr. SISISKY. Yes, I will yield.

Mr. MCKEON. I am sorry I missed the testimony; I had another hearing.

But how do we save money? The military pay is not exorbitantly high and people in private industry generally, from what I have seen, make more money. So, I don't really know where the savings is. I am here to learn, and I would like to know how that works out.

Mr. SISISKY. Well, there are certain savings in certain things. I agree with the travel thing. We can save a lot of money over the travel account. I have had two inspectors fly 400 miles to fight over a $16.13 lunch. That is pretty crazy. That is a place where you can save money. And we did allow them last year, am I right, Mr. Chairman, to try that to see how much money we will save. There are certain areas that you can save on, there is no question about it.

Mr. MCKEON. But it is probably not in wages.

Mr. SISISKY. Well, when I talk about war, the one thing about civil servants is that they cannot strike. We learned something in Desert Storm. There were certain people who we paid exorbitant prices for products and things like that, and that is what worries me.

Mr. BATEMAN. Let me suggest to the gentleman that we are going to be doing further inquiries into this matter of privatization and where the balance can best be struck, and to make sure that we try to establish some record as to what the realities fiscally of privatization are.

For my part, it is a mistake to assume that any and all privatization saves money. I think there are instances where it may, indeed, cost money. I think there are certain things that are so critical to our warfighting capability that it is worth the price of doing them yourself rather than being dependent on external resources if they are critical to our warfighting capability. We have to find the right balance and we will be inquiring into that.

With that, I would like under the 5-minute rule to call on Mr. Pickett.

Mr. PICKETT. Thank you, Mr. Chairman. And I welcome our witnesses here today.

About a year or so ago the big question that was being debated was, is the force ready and what are the measures of readiness and how do you evaluate those measures? Some action was taken in response to that debate and some additional committees were set up and so on. But the fact remains that judging the readiness of the force is not something that can just be manipulated on a computer. It requires some judgment, insight, experience, understanding, and a lot of other things.

I would like to know if, in making the judgment that the force is ready today, each of you feel comfortable that all of the relevant factors bearing on readiness have been taken into account and evaluated and in your judgment they have come up on the positive side? That is one of the things I would like for each of you to answer.

And the other has to do with whether the request of your respective service for readiness funding for 1997 has been adequately made. In other words, is the amount that is in the budget for readiness funding for 1997 adequate for your service's requirements?

Then the final matter has to do with civilian employees. I continue to hear that civilian positions are being taken away because of applying the FTE rule, and frequently these positions are having to be backfilled with uniformed personnel in order for necessary operations to be carried on. I would like to know if this is a problem in your respective service and whether or not it is impacting on your readiness.

So, if you could respond, please, gentlemen, to each of those three questions, I would very much appreciate it.

General SHINSEKI. Sir, in response to the first question, is the force ready? I would submit that the Army reports that it has met all of its criteria for near-term readiness to execute the missions that it would expect to receive under the national military strategy.

I would caveat that with the comment that I made earlier with regard to the funding this year that we have used to pay for the contingency in Bosnia. Subject to reimbursement for those costs, I can assure you that near-term readiness in the Army will not be a problem. For 1997, the budget, as we have submitted it, meets the near-term readiness requirements by every measurement factor that we follow.

In the business of measuring readiness, much of our assessments are historical, looking at where we are today and understanding where we are in terms of people and equipment fill and equipment availability and training readiness.

I would suggest that the art in this is trying to come up with the predictive analysis that many of these models try to provide. We are less perfect there, but we continue to work at it using what we predicted 6 months or a year down the road when we arrive at that point to see where we are. We are getting better at that business of predictive analysis. But to answer your question, readiness in the Army has been fully supported in the 1997 budget.

With regard to civilian employees, I would comment that I expect that there is probably some backfill, not in every position, but in backfill required whenever we adjust the civilian force structure. We would use the term "borrowed" military manpower. We watch that very closely, we ensure that it is for specific positions, and we try to limit the amount of time for which those backfills occur.

Mr. PICKETT. Thank you.

Admiral.

Admiral LOPEZ. When I look across the spectrum of the Navy, both civilian and military, I think we are quite happy with the funding, we have got enough, subject to the $85 million or so that is still pending before Congress for Bosnia. But I think the readiness funding overall is satisfactory.

Our measures of readiness, as I have articulated before, are many. They center around people and machines. We look at the status of readiness and training systems. We look at training people; how your equipment is going to be; our mission capability rates; our safety factors; our OPTEMPO; our PERSTEMPO and the quality of people who we are bringing in, as well as how we are training them.

We have a flag steering group that is looking at predictive measures of readiness, and that process is still maturing.

Readiness has the right attention within the Navy and I do not expect that the Navy will be surprised with some sudden change in readiness. I think we have the right insight from the CNO down, and are looking at it on a daily basis. He receives a report monthly and periodically if it appears that there is some trend problem. Additionally, he reports to the Chairman on a monthly basis to talk about the state of the Navy's readiness.

So, overall, I think we are satisfied, but I remember the Chairman mentioning about the perishability of readiness and it is something that you have to watch all the time. Otherwise, it will go down. And I think we are on top of it.

Mr. PICKETT. What about the FTE issue, civilian employees who are limited based on full-time equivalent employments? When you are limited, and you might not have an adequate number, then there may be a backfilling with uniformed personnel?

Admiral LOPEZ. I know that we are not doing a lot of that, but I would like to get a full response for you for the record and come back to you on that, if I may.

Mr. PICKETT. Thank you.

[The following information was submitted for the record:]

FTE is not a control. It is a management target. Since there are no limits on civilian personnel—endstrength, workyears, and the like—any decision on whether an activity's functions are performed by military personnel, civilians, or contractors would be based on factors other than FTE constraints, such as available financing, short or long-term requirements for available personnel and the nature of the work to be performed.

General BLADES. With regard to maintaining near-term readiness, we believe that the current readiness funding is in fact, adequate in the short term. We are funding our current readiness over modernization, which I indicated before.

Projection of readiness techniques and readiness indicators, of course, was a source of concern last year. We did a complete analysis. We know that the Marine Corps has maintained this year. We went back and looked at the past under current systems and, in many cases, we follow the trends and we don't see any indication that the readiness status in the future is going to deviate substantially or in any great measure from what we have set historically in the past. There are many variables to maintaining and tracking readiness so that it doesn't fall off and you see it in retrospect when, in fact, you could have predicted it.

The Marine Corps has done two things since last year. First, we have introduced MCTEEP, which was a Marine Corps program that the commanders will report and develop other systems, and track readiness, tempo, and cost.

Additionally, we have begun to institute some studies to see if we can develop some readiness predictors. But predictors are very difficult because of the variables. The bottom line is that we believe that the readiness of the Marine Corps will maintain the current rate that has been established as a result of the cycle that we found ourselves and made commitments: one-third out, one-third preparing to go, and one-third stood down.

With regard to the civilian employees on the FTE, I couldn't comment on that. I would like to take that for the record.

[The following information was submitted for the record:]

HOUSE NATIONAL SECURITY COMMITTEE, SUBCOMMITTEE
HEARING ON READINESS
19 MARCH 1996
QUESTION FOR THE RECORD

Question: Mr. Pickett asked about civilian employee positions and the issue of FTE (full time equivalents). Specifically asked if services had to use uniformed personnel to"back fill" positions that were identified as civilian but due to FTE limitations had no civilian to put in the position.

Lieutenant General Blades: Currently the Marine Corps is not using marines to "back fill" positions identified as civilian that can not be filled due tp FTE limitation. I would like to thank the Congress for the language included in the FY 1996 Authorization bill that lifts the legal FTE sanction for FY96 and would like to see the same language in future years as a General Provision.

General EBERHART. In terms of the readiness matrix, we think we have a good system of sorts. It doesn't mean that it can't be better and we are all committed in the services to working with the joint staff to make that better in the future. I think the acronym is JARS, but I have forgotten what that stands for.

We think that the system has improved greatly over the last two years. Interest here in Congress, interest in the Department of Defense as we had the Senior Readiness Oversight Council, as we have the JMRR—the Joint Monthly Readiness Review—we think that has really matured. It is paying big dividends.

In fact, we essentially go to quarterly reports at JMRR now. I don't know how you put JQRR and use that as an acronym. But could it be better? Yes. And we are committed to making it better, working with the other services and the joint staff.

We think that the right person is reporting the readiness. That is the unit commander. And he or she reports it directly so it is not filtered by, in our case, the wing commander or the MACOM commander or me as the XO or the Chief of Staff. It is reported directly in the system and that is what you see, which we think is honesty in reporting and obviously there is no backlash for calling it like it is. And there is a provision in there, as was talked about earlier for commander's judgment where a commander could up it or lower it, and I have seen them do both based on their gut feeling, their leadership perspective of what that unit can or cannot do.

In terms of the 1997 funding, once again, we think that is adequate. Does it fix all of the problems? No, but it allows us to keep the readiness to where it has been over the last 5 or 10 years and the 1997 funding will allow us to do that. How good are we at predicting?

I am not sure, but I have looked at part of that JMRR process and I said a year ago what we did, we say our readiness would be here. It has been within 1 or 2 percent. We are always optimistic, but not by much. In terms of backfilling civilian employees with military people, we are not supposed to do that.

Mr. PICKETT. I wasn't trying to trap you.

General EBERHART. As you know, you have to prove that it is military essential now and it is essentially converting it back if you let someone go. I am not naive enough to believe that we follow that in every case. I would like to think we do.

The important part from my perspective is that I don't know of a case where that has affected the readiness of an organization or a unit, and then the experts would have to talk to you in terms of civilian personnel and/or personnel people.

Mr. PICKETT. I wasn't trying to trap anybody on that question. What I have been hearing is that there is an effort to take positions that are not inherently and absolutely militarily oriented and have a civilian do that job if it is essential to the mission. At the same time, the military has been told you can only have a certain number of civilian employees so, in effect, you have been stymied in an effort to put more military positions or to put more people into positions that are strictly militarily oriented and backfilling those positions with civilians.

This is what I have been hearing, which means that your problem has been compounded by the arbitrary rule on full-time equivalent, meaning that you cannot manage based on a budget, you have got to manage based on bodies and that that has presented some problems for the military departments and that is what I was trying to get at. Thank you very much. Thank you, Mr. Chairman.

Mr. BATEMAN. Next, Mr. Tejeda.

Mr. TEJEDA. Thank you, Mr. Chairman. And I would like to thank each and every one of you for being here and for your testimony and your answers to the questions that have been asked.

I have one question that is basically for each one of you. What steps can each service take to relieve stress currently placed on our active forces either with Reserve components or other means? I have heard this in other testimony in other places so that is the question.

General SHINSEKI. Sir, I would use the Bosnia deployment as an example. We have well over 3,000 members of our Reserve components deployed along with active component formations to execute that mission driven by two things. They are part of the team integrated into our planning.

The second piece to that is understanding that we still have a requirement to be ready to execute a two-MRC national military strategy. We have intentionally protected those units that are required to execute the first MRC on short notice. And as a result, Reserve component units have been used to augment our formations in Bosnia.

The third point I would make is the comment I made about the size of the Army's endstrength. The 495,000 active component end strength is very much tied to your question about stress PERSTEMPO on the active duty soldiers today. We feel that 495 is right both for operationally executing the national military strategy and to protecting our requirements for the long term on the quality of the force by keeping control over what is a very, very busy PERSTEMPO.

Admiral LOPEZ. Sir, as you know, we normally deploy for six months and that is always the most significant quality of life issue for any sailor, any young man or woman. And to alleviate any stress, I think, the key is to keep that commitment to our sailors and wherever we can, and we have done that on a few occasions, bring them back a few days sooner.

The *Eisenhower* comes to mind. We got her home 3 days sooner to be home for the Easter holidays. And just keeping these wonderful young men and women informed of what their mission is and just let them go out and do the job and keep our commitments to them. I think those simplistically are the keys.

General BLADES. The key to reducing or keeping the stress low within the Marine Corps with regard to the cycles and meeting commitments, first of all, as I indicated, the 174,000 for us will be critical. We balance our deployments in the fleet marine forces with the other commitments.

Standard deployment of 6-month duration and those that get in the cycle where we have fixed guidelines where we try to honor those where the individuals are committed in the deployment cycle

and the fleet marine forces all get the same deployment time in a standard cycle within the standard 3-year period.

But other contingencies, both within the continental United States, outside the United States and short duration, which have continued to pop up do pose unique problems. The Marine Corps has attempted to adjust those by taking units or sourcing from other units where there are shortfalls and trying to balance the load of those people that have to meet those commitments even though they may have come off a deployment cycle.

By going to other commands throughout the continental United States we have sought relief for short skill OMS's and have tried to balance it that way. In other cases we have actually sought the support of the Reserves where they have aligned the people on active duty and bring Reserves in to take short-term commitments that the Marines find themselves meeting such as the drug or the operations along the border, the counterdrug program. That has proven particularly beneficial for us.

And finally, as to maintain the high quality of those individuals so that each of the persons know that each person is carrying their load and on a balanced thing, you think you will find that most marines, when they feel it is equally balanced, are willing to meet the challenges. In that regard, between the fixed and the unfixed deployments, we think we have struck a good balance.

General EBERHART. Sir, inside the Air Force the way we work the issue that you discussed is essentially three ways. First of all, from a total force perspective, and we would offer that total force certainly works in the Air Force in terms of the active duty, the Air Force Reserve, and the Air National Guard. As you know F–16's from Fort Worth go to Bosnia, fly out of Aviano, and I would challenge anyone to detect that they are the Reserve component.

The second area that we work this problem is what we call global sourcing. Initially, we tried to satisfy all our requirements in Turkey and in Aviano, Bosnia, and supporting northern Iraq using forces in Europe. That drove an unbelievable OPTEMPO, so global sourcing to us means that, for example, over Christmastime we had F–15's from Hawaii there. We have had F–15's from Alaska and sometimes a Guard component, sometimes Pacific air component.

And then finally, for those low-density, high-demand forces such as AWACS, rivet joint, we have actually said there it is a zero sum game. If they are demanded in a contingency, then we are, in fact, going to have to take them from another CINC to support this contingency, because we have to maintain the training base so those fleets are healthy and if that is not working, we make the tough decision, as we have this last year, to buy more rivet joint airplanes to make it a reasonable OPTEMPO. And then, finally, to address the quality of life issue, our chief has said what our people really want to know is what they are doing is important and is appreciated and taking care of their families while they are gone. And we focus a lot of effort on those challenges. Thank you.

Mr. TEJEDA. Thank you, Mr. Chairman.

Mr. BATEMAN. Before it escapes my attention to do so, staff will be submitting some questions they would like for you to respond to Fox the record. And included in that will be some questions concerning whether any progress has been made in the direction that

we tried to give to see that a certain number, I don't recall what it was—of people now in uniform who are not doing warfighting kinds of things were being moved into strictly military functions. We would like to have a progress report on that. Also we had some provision in the bill about not using FTE as the overriding management tool and we would like to know how that is progressing.

The remaining question I have is the fiscal year 1997 budget request has in it $1.1 billion for the ongoing Bosnian operation moving into the first quarter of fiscal year 1997. Of course, it is contemplated that that deployment will be concluded in a year, certainly maybe not 365 precise days, but very, very close thereto.

Do you feel the $1.1 billion is adequate to fund the fiscal year 1997 portion of that deployment, and is there any indication of any slippage that the deployment may be lasting longer? Do the figures contemplate that some of the forces that are being deployed there will be drawn down over the next 4 or 5 months leading up to the withdrawal and the end of the year?

General SHINSEKI. Sir, I am not aware of any slippage to the approximate 1-year deployment. I think General Reimer has used the date December 20 and we are looking at that. And you are correct that the 1997 budget does contain what we expect are a reasonable estimate to what we anticipate our contingency operating funds for the first quarter of fiscal year 1997.

Mr. BATEMAN. Let me add to the question anything you might need to comment about the operation enhanced—the Southern Watch mission, is that also included in this $1.1 billion?

General SHINSEKI. Yes, sir.

Mr. BATEMAN. And Provide Comfort is also taken care of?

General SHINSEKI. Sir, I would have to provide for the record an answer on Provide Comfort, but Joint Endeavor and Southern Watch are definitely covered.

Mr. BATEMAN. Glad to hear that. Admiral Lopez, anything to add?

Admiral LOPEZ. Sir, the only thing I would add is that the Navy, as I said earlier, is fully funded once we receive the contingency funds. We have no indication it will be longer or shorter. But as you know, a major part of our force has already left for the Persian Gulf.

Mr. BATEMAN. There is no identifiable hunk of that $1.1 billion that you anticipate as a Navy cost of the Bosnian——

Admiral LOPEZ. Well, the cost, as I recall from memory, was about $85 million of that $1.1 billion that we estimated, and that was about 5 percent of the $1.1 billion.

Mr. BATEMAN. Are the marines fully covered in that?

General BLADES. The Marine Corps' supplemental request is about $8.8 million to cover these contingencies.

Mr. BATEMAN. I have been thinking in terms of supplemental requests for the present contingency that is unfunded. And I am thinking about the first quarter of fiscal year 1997?

General BLADES. It will be relatively small, sir.

General EBERHART. We believe that it is properly funded now for the mission, as we understand it. Obviously, if that mission changes.

Mr. BATEMAN. One of the things that we hear, and it is gratifying to me and especially gratifying to Congressman Montgomery and perhaps others, is the extent to which reservists are being used, and I do applaud that. I have also had some concern that if you are going to be taking reservists frequently and sending them off on extended deployments that you may be encountering the buildup of some retention problems for those reservists who have classically thought of themselves in terms of being deployed in time of some critical national emergency, and one would not contemplate that happening frequently rather than being constantly called into active duty because of various contingencies on a recurring basis. Do you see any risks or dangers there?

General SHINSEKI. Sir, we are aware of concerns in that area, and coming out of the several deployments that the Army has been involved in back to back for the Bosnia deployment, we very consciously looked at units that are being called up to ensure that did not aggravate the kind of situation unnecessarily that you just described. We are very comfortable that within the constraints of this deployment we are able to manage the available forces so we are not deploying Reserve component soldiers on multiple deployments.

However, for the active component, we do have soldiers who have deployed from Bosnia who were, as I indicated, in Haiti and in Somalia. PERSTEMPO is high.

Admiral LOPEZ. From the Navy's perspective, we consider the Reserves as part of one Navy. It is not Active/Reserve for us. And they are folded in, in many cases, like the Reserve Seabees are scheduled by the fleet commander. They do counterdrug operations with the 10 frigates that are assigned to the Reserves. We also have reserve ships that are assigned to carry the Marines to make up for the vehicle lifts since we don't have enough active ships to do that. The *John F. Kennedy,* a carrier, has a Reserve air wing assigned to it.

So, we are quite comfortable with the Reserves and when we do send individual Reserves overseas for an extended duty, it is always volunteer. And we think we have a really good high morale and absolutely no retention problems. I have discussed that personally with Admiral Hall, the commander of our Reserve Forces.

General BLADES. Sir, we don't see a problem at this time.

General EBERHART. Sir, as the Navy, we are fortunate in that ours are volunteers. They volunteer to go. That doesn't mean that we shouldn't be sensitive to some of the issues that you have outlined. And in fact, we have worked with the CINC to say you would like to have them for 90 days in Southwest Asia. But if it is 30 days or three weeks to be more accommodating to their civilian professions, we have been fortunate to work those types of trades with the CINC.

Mr. BATEMAN. I am delighted to hear that this has not surfaced as any problem there at all. But I think it does bear watching because you not only have the reservists who may be very happy to be deployed and going and doing exciting things for their country, but there is a family back home and employers back home that have to be a matter of concern.

With that, Mrs. Fowler has joined us and I will ask her if she has any questions that she would like to ask of our witnesses.

Mrs. FOWLER. Thank you, Mr. Chairman. I apologize for being late. There were several subcommittees meeting today. I did have the testimony ahead of time and I did have a couple of questions. One was for Admiral Lopez. I wanted to ask you about the current and anticipated backlog of Navy aircraft that are awaiting depot level maintenance and repair.

The Navy has maintained that it is acceptable to have a backlog of 100 aircraft and 250 engines awaiting depot level work. Does the fiscal year 1997 O&M request ensure that the Navy will not breach that policy, and is it also true with respect to the 1996 backlogs?

I have heard that the backlogs at the end of fiscal 1996 may leave the Navy above the 100 aircraft, 250 engines due particularly to funding the Bosnia operations and some of that money is being shifted over. I was concerned with what has been happening there.

Admiral LOPEZ. We have not shifted any money out of that account to fund Bosnia. Our objective is still 100-aircraft and 250-engine backlog. We intend to make that. It is one of those things that you watch on a day-to-day basis and the money is there. If it looks like we are not going to have the money, then we will have to move money into that account. But, in any case, we fully intend to have only 100 airframes and 250 engines in 1996 and 1997.

Mrs. FOWLER. Great. I appreciate that. I am very interested in that and pleased that you are going to continue on that. We need to keep the depots strong and operating at full capacity.

I had one other question for General Blades. I have Blount Island in my district and when I read your testimony I noticed that you made reference to the Marine Corps' strong need for an enhancement to the Maritime Prepositioning Program. Could you comment on that or elaborate on this, unless you have already done so, and what the readiness implications are for the Marines by obtaining this capability?

General BLADES. As a result of the Desert Storm experience and recent contingency requirements, we found out that this additional enhancement to the MPFE Program was required primarily in the ability to deliver an expeditionary airfield capability to conduct sustained operations ashore for fixed-wing aircraft; supplemental engineering equipment, which is always called for for humanitarian operations; the ability to conduct or carry portable hospitals; and some other additional equipment.

The MPFE requirement identified three MPFE ships and one of those ships has been funded and the other one—money has been appropriated, and the other one money has been authorized. We think it will be a very effective program, which it is, in fact, completed.

Mrs. FOWLER. You are looking for the third ship this year?

General BLADES. As always.

Mrs. FOWLER. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you. Do my colleagues have any other questions of this panel? If not, we will thank them for their testimony and invite our next panel to come up and be seated. We do thank you.

For our departing witnesses, on the staff questions, if we could have a 2-week turn around on those it would be extremely helpful to us to make our markup schedule.

We are very pleased to have with us as our second panel Maj. Gen. Clinton V. Horn of the U.S. Air Force, Director of Operations for the U.S. Special Operations Command; and Maj. Gen. William J. Begert, U.S. Air Force, Director of Operations and Logistics for the U.S. Transportation Command.

Welcome gentlemen. We are pleased to hear from you. General Horn, the floor is yours.

STATEMENT OF MAJ. GEN. CLINTON V. HORN, USAF, DIRECTOR OF OPERATIONS, U.S. SPECIAL OPERATIONS COMMAND (USSOCOM)

General HORN. Thank you, Mr. Chairman. We appreciate the opportunity to come here from Special Operations Command to discuss with you the subject of readiness. OPTEMPO, certainly that is interrelated with funding, as we have talked about in the panel before, and how that interrelates specifically. I will set the stage for the committee with this one slide to show you in summary form how busy Special Operations Command has been over the last 3 years.

It is not really important that you see the numbers per se on the left side of the first chart, the top is the number of missions that we have done. The bottom scale is fiscal year 1992 through 1995 in all cases. As you can see, we have doubled, or 180 percent, growth from 1992 to 1995 in the number of missions.

On the top right of that slide, you will see the number of personnel deployed outside of the United States. Correspondingly, from 1992 to 1995 we have gone up 129 percent. Not surprising, your Special Ops personnel throughout the world have gone from some 40 nations to be deployed to some 60, so it's another 64- to 50-percent increase.

I bring that to your attention to encapsulate that we are in a growth industry. My new boss, General Shelton, would tell you that we are certainly very relevant, very ready. And I am assured, and I can assure this subcommittee, that we are a very capable force for you today. I look forward to the opportunity to submit my statement for the record and to answer any questions that you or your committee may have.

[The prepared statement of General Horn follows:]

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STATEMENT OF

MAJOR GENERAL CLINTON V. HORN, USAF

DIRECTOR OF OPERATIONS, J3

UNITED STATES SPECIAL OPERATIONS COMMAND

BEFORE THE COMMITTEE ON NATIONAL SECURITY

SUBCOMMITTEE ON MILITARY READINESS

HOUSE OF REPRESENTATIVES

ON OPERATIONAL READINESS

MARCH 19, 1996

UNCLASSIFIED
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Mr. Chairman and members of the subcommittee:

I am Major General Van Horn, Director of Operations, United States Special Operations Command (USSOCOM). It is a pleasure to appear before you this afternoon to report on the state of this country's special operations forces (or SOF, as they are commonly called).

I want to review with you today the readiness of SOF to conduct our assigned missions in support of geographic commanders in chief, U.S. Ambassadors and their country teams and other governmental agencies. I will focus on Operation JOINT ENDEAVOR and the effect of current operational tempo on personnel, training and equipment.

I am pleased to report to you that SOF, both in the United States and those assigned to regional unified commands, are trained, ready and capable of fulfilling our legislated missions. Our operational tempo is high, requiring us to carefully manage the force in several key areas, but the morale of the force remains high because our men and women are fully engaged in the types of missions for which they volunteered and are trained. The utility of SOF is clearly demonstrated by the steady increase in SOF deployments over the past few years. Our total employment overseas rose 180 percent from FY 1991 to FY 1995. In FY 1991, SOF teams were in 92 countries around the world. By 1995, this had increased to 137 countries. Five months into FY 1996, we have deployed teams to over 110 countries.

The "story board" graphs capture the SOF tempo picture for the FY 92-95 time frame. As you can see, total numbers of assigned SOF missions rose from 1,331 in FY 92 to 2,765 in FY 95. In addition to the approximately 2,903 SOF personnel permanently stationed overseas, we have many more sent on temporary duty. The number of personnel deployed on a weekly average rose from 1,626 in FY 92 to 3,715 in FY 95. The weekly average number of countries in which we had SOF deployed rose from 46 in FY 92 to 69 in FY 95.

Although our SOF are trained, ready and capable, as I stated earlier, there are significant increases in operations and personnel tempo (OPTEMPO and PERSTEMPO) that impact readiness. Some of our units are deployed far more frequently that we

believe is prudent for the long-term health of the organization. This is true of several of our organizations--particularly our active component Civil Affairs battalion and AC-130 gunships, Navy SEALs and Air Force Special Tactics Squadrons.

The solution for the Civil Affairs unit has already been demonstrated in Haiti and Bosnia. Access to our reserve component Civil Affairs units will reduce active component OPTEMPO to a reasonable level. Because the reserve units have needed capabilities that cannot be found in the active force, access to these reserve forces becomes even more critical. Programming additional active forces is not the key, in my estimation, because there is no way our young active component officers and NCOs can replicate the skills and experience of the long-serving reservists. That said, however, we must also guard against the equal threat of such heavy utilization of reserve forces that we affect the civilian occupations of our people.

The AC-130 gunship problem will be alleviated as we field the thirteen new "U" model gunships. We had originally planned to take the currently active AC-130H gunships and send them to the Air Force Reserve to replace the Vietnam-vintage AC-130As flown by the 919th Special Operations Wing, but with the increasing demand for gunships to support numerous operations other than war (OOTW) around the world, the Air Force Special Operations Command (AFSOC) has decided to keep the AC-130H model in the active force. These eight gunships, when combined with the thirteen new AC-130Us, will provide a healthy gunship force that should be able to meet geographic CINCs' requirements while providing a reasonable level of PERSTEMPO for the crews, and sufficient time to conduct training for crews and maintenance on the aircraft.

These readiness issues have the highest visibility in USSOCOM to ensure we do not "break the force."

At this point I'd like to focus more specifically on our SOF contribution to the overall effort in Bosnia--Operation JOINT ENDEAVOR.

Since the beginning of the United States' role in implementing the Dayton Accords, SOF have deployed approximately 1,700 personnel in support of Operation JOINT ENDEAVOR. The mission of theater SOF (as augmented by US-based SOF) has been to establish a special operations headquarters (SOCIFOR) and conduct

special operations, civil affairs, and psychological operations in support of NATO peace enforcement and the withdrawal of UN forces from the former Yugoslavia. This has been accomplished by attaching SOF forces to designated NATO and non-NATO units; liaison with former warring factions; assisting the integration of all units; assisting in implementation of the peace accords; and providing rapid response capability (Combat Search and Rescue/Personnel Recovery, Special Boarding Team, Special Reconnaissance, Direct Action).

Special Operations Forces in Bosnia-Herzegovina is broken down by special operations, civil affairs and psychological operations. The command relationships of each category are some what different. These forces are subordinate to the Allied Rapid Reaction Corps (ARRC). Each Multi-National Division (MND) within the ARRC was assigned a Special Operations Command and Control Element (SOCCE) which controlled three to five Liaison Coordination Elements (LCE). The LCEs work for the multi-national battalions and provide language capable personnel and secure communication back to the SOCCE at the Division/sector Headquarters.

Civil Affairs/Civil Military Cooperation (CIMIC) support was established to provide the Commander of the Implementation Force (COMIFOR) with the following capabilities: conduct Civil Military Operations (CMO) in support of SACEUR's implementation of the peace agreement; promote cooperation with civilian populace, various agencies and national governments; leverage capabilities of non-governmental organizations (NGOs), international organizations (IOs) and national governments; facilitate parallel, unified civilian efforts in support of NATO peace plan implementation; and be prepared to respond to humanitarian, public safety, and public health contingencies. Civil Affairs (CA) forces support the IFOR in implementing the military aspect of the peace agreement to include advice and assistance to the supported commanders.

Psychological Operations/Combined Joint IFOR Information Campaign Task Force (CJIICTF) support was established to provide COMIFOR with the following capabilities: encourage cooperation and non-interference with peace implementation process; deter armed resistance to IFOR activities; reduce accidental injuries and death from unexploded munitions; and facilitate the transition at the completion of the NATO mission. In addition to providing radio, newspapers and other printed products, PSYOP

forces provide direct tactical support to IFOR maneuver units and higher headquarters using a variety of methods to communicate themes to target audiences promoting safety, security, and support for the IFOR mission of peace.

Allow me to touch on the financial impact of emergent operations, and specifically Operation JOINT ENDEAVOR. Unreimbursed costs incurred by USSOCOM in support of emergent operations must be absorbed from O&M funds budgeted for other requirements or out of RDT&E/PROCUREMENT funds through reprogramming actions. USSOCOM incurred costs totaling $50.036M in FY 94. The FY 94 DOD supplemental funding totaled $37.6M, leaving a $12.5M shortfall. In FY 95 USSOCOM obligated $36.404M, which DOD supplemented in full. As of 31 Dec 95, deferred FY 96 costs amount to $12.197M, with estimated costs through FY 96 amounting to $82.667M. With mounting costs each month, there is a potential for a shortage of funding. These deferred funds would have otherwise provided support for training and sustainment of SOF.

USSOCOM estimated FY 96 costs total $56.788M for JOINT ENDEAVOR and $10.200M for DENY FLIGHT to support the SOF role in enforcing the no-fly zone over Bosnia-Herzegovina and providing air support for IFOR.

In summary, operational tempo of SOF has increased significantly since FY 92, due to dynamic world situations and the demand for our mature, regionally focused and versatile forces. Unreimbursed increases in OPTEMPO cause us to finance unplanned operations out of our current program, to the extent that we can. The long-term impact of unreimbursed increases in OPTEMPO is a gradual decline in readiness or capability, sometimes not realized until much later.

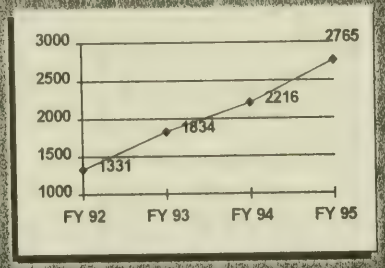
The bottom line is we are not facing a readiness cliff, rather we are approaching a downward readiness slope if directed operations moneys remain unreimbursed. I expect this downward slope to begin this spring--as early as May.

Finally, it is important to understand that the nature of assessing both OPTEMPO and readiness is more of an art than a precise science. We continually work to improve our ability to assess readiness and all of its constituent parts and correlate funding levels.

I thank you for this opportunity to address the subcommittee and I welcome your questions.

SOF Deployment Trends

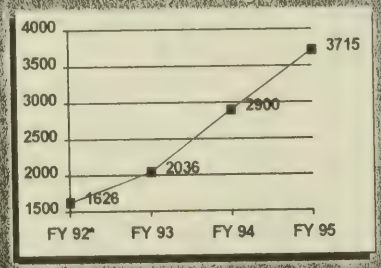
Total Missions FY 92 - 95



108%

FY 92-95

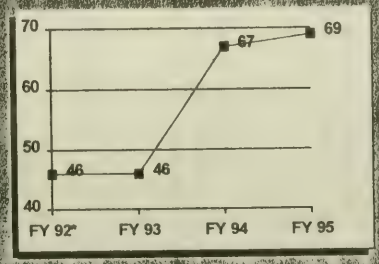
Personnel Deployed OCONUS FY 92 - 95 (Weekly Average)



129%

FY 92-95

Countries Deployed to FY 92-95 (Weekly Average)



50%

FY 92-95

* 4th Quarter FY92

Mr. BATEMAN. We will be happy to receive your statement and make it a part of the record. Now for General Begert, and I hope I am not mispronouncing your name.

STATEMENT OF MAJ. GEN. WILLIAM J. BEGERT, USAF, DIRECTOR OF OPERATIONS AND LOGISTICS, U.S. TRANSPORTATION COMMAND (USTRANSCOM)

General BEGERT. Mr. Chairman, distinguished members of the committee, it is my pleasure to appear before you today to address the readiness of the defense transportation system. I also have a statement which I would like to submit for the record and make a couple of brief comments to start with.

Our Nation possesses the most effective and responsive strategic mobility capability in the world. It is one of our strongest assets. Recent success of the deployment provisions have repeatedly demonstrated the capability of this integrated global system. When the national command authorities direct deployment of military forces, whether with a clenched fist or an open palm, the U.S. Transportation Command is involved. Although many see Desert Shield/Desert Storm as the last significant military operation, in reality the people and equipment of TRANSCOM have had little rest since operation Just Cause in 1989.

I also have a slide to my left. The lower left-hand corner mentions a few of the operations that we have had. The continued support of peacekeeping activities, humanitarian operations, and JCS exercises have strained resources. While the command continues to meet the demands of its missions, there is clearly a point where accelerated OPTEMPO can impact readiness.

We have not reached that point in the defense transportation system, but in some areas we are close. Aging equipment is being pushed hard. Reductions in support infrastructure and the lack of surge sealift challenge our ability to quickly deploy anywhere around the world.

Today the defense transportation system's total force team is capable and ready to support the needs of the warfighting CINC's. With your continued support, I believe we can have confidence in the future readiness of the defense transportation system. Thank you, Mr. Chairman. I am prepared to answer your questions.

[The prepared statement of General Begert follows:]

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HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE

Statement of
Major General William J. Begert
Director of Operations and Logistics
United States Transportation Command
on
Defense Transportation System Readiness

Before the 104th Congress
House National Security Committee
Readiness Subcommittee
19 March 1996

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HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE

Mr. Chairman, distinguished members of the committee, thank you for this opportunity to appear before you today to discuss the readiness of the Defense Transportation System (DTS). The DTS is a critical part of our Nation's military readiness and is the responsibility of the United States Transportation Command (USTRANSCOM)and our component commands -- Air Mobility Command (AMC), Military Traffic Management Command (MTMC), and Military Sealift Command (MSC). As the USTRANSCOM Director of Operations and Logistics, it is our job to ensure that the people and equipment of the DTS are fully capable and ready to execute our wartime mission. Readiness, and anything impacting it, is our primary concern. I would like to highlight some of the key elements of the DTS and review how their readiness status impacts our ability to carry out our operational mission.

Many see DESERT SHIELD/DESERT STORM as the last significant military operation. In reality, the DTS has had no appreciable break from high operations tempo (OPTEMPO) since that conflict. This has been most demanding on the air mobility side of the lift equation. During the last 5 years, the DTS has been heavily tasked to move troops and equipment in support of numerous humanitarian operations, natural disasters and contingency operations including: 1991 - Philippine Evacuation, Bangladesh Typhoon, Kurdish Relief effort, former Soviet Union Relief effort, hurricane Andrew and typhoon Iniki; 1992 - Somalia and Bosnia; 1993 - Los Angeles earthquake and Somalia redeployment; 1994 - Rwanda, Haiti, return to Southwest Asia, Cuba; and just this past year the Oklahoma City bombing, hurricanes Marilyn and

Opal and most recently, the Bosnia deployment. In addition to these operations, we have continued to support enduring commitments such as swap outs in Southwest Asia, return of 27,000 migrants to the United States, and Provide Comfort. This continuous demand on our equipment and personnel has not been without cost.

For example, our aging C-5 and C-141 fleets still bear the majority of the air mobility burden. Few in number, the C-17 is proving itself to be an invaluable addition to our airlift fleet, as recently demonstrated during Joint Endeavor, and is quickly becoming the "weapon of choice." I hope Congress will give expeditious approval to the pending legislative request for multi year procurement authority for the last eighty aircraft.

Also we continue to view the issue of personnel tempo (PERSTEMPO) with a wary eye. USTRANSCOM PERSTEMPO, especially within AMC, remains high. We're busy, but within acceptable limits. The Air Force objective is to limit time away from home to less than 120 days per year. Many of our units' personnel are deployed on temporary duty just below this mark. As recently as last year we were exceeding this objective in many mission support areas, for now these rates have stabilized.

The quarterly Joint Monthly Readiness Review (JMRR) is our primary tool to measure near-term readiness. This tool helps us identify how we apply resources. It assesses readiness in the context of current operational requirements and the ability to successfully perform two near simultaneous major regional contingencies (MRC). The concept of nearly simultaneous MRCs is

based on the assumption that there will be a specified interval between the two conflicts. We can estimate from preliminary modeling that the near-simultaneous MRC strategy can be supported using today's assets with a degree of risk.

During the past seven JMRR cycles, under different scenarios constructed by the Joint Staff, we have noted shortfalls in the areas of sealift, material handling equipment and the West Coast containerized ammunition port capability.

Sealift continues to be our most significant challenge. Today we remain short of the capacity needed to meet the surge sealift requirements of our theater commanders. We currently have approximately sixty-five percent of the required surge sealift capacity. Given the status of current programs, these sealift deficiencies should be corrected over the next five years. In the event of a major contingency in the near-term, we will have to rely upon U.S. and foreign-flag commercial ships, to the extent that they are available, to offset this surge shortfall.

Another shortfall is material handling equipment (MHE). MHE is critical to optimizing the throughput capability of our modern airlift system. The backbone of our current MHE fleet is the 40K loader. It is increasingly unreliable due to age and condition. In addition to the 40K loader, wide-body elevator loaders (WBEL) are necessary for reaching the high cargo floors on commercial wide-body cargo aircraft and our KC-10s. The current WBEL inventory is limited.

MHE status will begin to improve in FY97 and should be healthy by FY02, if the 60K loader acquisition program continues as scheduled and the next-generation small loader program receives continued support.

The final concern is the need to upgrade the capability of the West Coast containerized ammunition port capability. This has been one of our most important Army Strategic Mobility Program (ASMP) projects. Funding is on track. Matched with Military Ocean Terminal Sunny Point's capacity on the East Coast, the two ports of Concord and Port Hadlock on the West Coast will provide sufficient containerized ammunition throughput to meet our requirements.

Other issues key to USTRANSCOM's readiness that we monitor include overseas enroute infrastructure and Total Asset Visibility (TAV).

Access to overseas airfields with adequate ramp areas and refueling capabilities is critical to supporting contingency operations. We monitor their ability to support strategic deployment operations. We must be mindful of the need to properly maintain and ensure access to these facilities.

The key to successful deployment and sustainment in the future will be Total Asset Visibility (TAV) which allows efficient and effective logistics support to military operations. USTRANSCOM is lead agent providing In-Transit Visibility (ITV) in support of the TAV effort. ITV provides visibility over all aspects of transportation operations enabling managers to monitor the in-transit status of resources. Keeping our command,

control, communications, and computer systems (C4S) in step with today's technological advances is important to successful ITV implementation and will significantly improve USTRANSCOM's support to the warfighter.

The Global Transportation Network (GTN) is an integrated transportation database and decision support system which will provide ITV, as well as other command and control functions we currently lack. When complete, GTN will facilitate USTRANSCOM's global transportation management responsibilities during peace and war as well as providing vital ITV information to our customers. We will conduct initial operational test and evaluation of GTN this summer and fall and expect to reach initial operating capability this year. We expect to use GTN during the redeployment from Bosnia.

We've got an old fleet that is getting tired, but we are getting the job done. USTRANSCOM is capable and ready to conduct the strategic mobility missions assigned by the National Command Authorities. Maintaining the readiness of our Nation's strategic deployment and sustainment capability remains paramount.

Mr. BATEMAN. Thank you. Mr. Sisisky, do you have any questions?

Mr. SISISKY. You mentioned surge sealift. How short are we? Don't we have something in the budget this year?

General BEGERT. Yes, sir; we still think that the mobility requirement study confirmed by the Bottom-Up Review of 10 million square feet is the requirement for surge sealift. Today we are only 65 percent there, so we are short.

Mr. SISISKY. We had enough trouble getting the Navy to build ships when we provided the money.

General BEGERT. Yes, sir; it is very important to our ability to do surge sealift, and it is our No. 1 readiness requirement right now. Of course, our large medium-speed RO/RO's, which are under construction and under conversion in some cases, are a little behind. They are 2 years behind, so we are concerned about that. We want to get those done.

Mr. SISISKY. Why are they behind?

General BEGERT. They have had some problems in engineering, problems in the shipyards, and the program has slipped. Fifteen to 22 months is where it is right now, sir. The other part that we are working hard on is trying to acquire the recommended 36 roll-on/roll-off ships that we need. We are 5 short of that.

We have requested to buy off the open market those 5 that we need to get to the 36. Of course, we have also got 7 in the PREPO fleet right now that will come back to the surge fleet once the RO/RO's come on line. So, we have a deficit now of some of our most important ships, which are our roll-on/roll-off ships, so we have some concerns in the area of surge sealift.

Mr. SISISKY. You just raised one concern. Have we solved the 22-month problem or 2-year problem? What shipyard is that?

General BEGERT. There are two, sir; one on the west coast and one on the east coast that are producing the ships, both conversion as well as producing new. And they have fallen behind. I will give you details for the record.

[The following information was submitted for the record:]

Conversion ship contracts are with National Steel and Shipbuilding Company (NASSCO) in San Diego, California and Newport News Shipyard (NNS) in Newport News, Virginia. NASSCO's contract is to convert three ships. Those ships are currently 15, 17 and 22 months behind the original scheduled delivery dates. NNS's contract is to convert two ships. These ships are approximately 19 months behind the original scheduled delivery dates. Delays for these ships are due to both government and contractor issues. Early government issues causing delays were redesign of the firefighting system and late availability of Government Furnished Information (GFI) for the Class Standard Equipment (CSE). Subsequent contractor issues were insufficient shipyard resources and underestimation of extent and complexity of design and production.

New construction contracts are with NASSCO and Avondale Industries, Inc. (AII) in New Orleans, Louisiana. The first four ships delivery schedules at NASSCO were delays six months and the fifth and sixth ships are projected to deliver one and five months ahead of schedule due to Joint Navy/Nassco total in-yard re-baselining. The first four ships delivery schedules were delayed at AII four months due to firefighting system redesign and the aforementioned GFI/CSE modifications.

Naval Sea Systems Command (NAVSEA), the project manager, is continuing to coordinate with the shipyards to make delivery within the current timelines. The Navy is briefing USTRANSCOM quarterly on the LMSR status.

Mr. SISISKY. Whose plans were they? The Navy's plans or the shipyard's plans?

General BEGERT. Well, it is a Navy program, sir.

Mr. SISISKY. It is a Navy program, but were the plans done when they contracted? I don't understand 2 years? I mean, that is unconscionable.

General, let me ask you a question about psychological operations and civil affair units. I understand they are few in number and are heavily engaged in contingency operations in Rwanda, Haiti, Somalia, and Bosnia. Have you experienced any losses in the personnel strength in these units, both Active and Reserve?

General HORN. No, sir; not out of the ordinary losses.

Mr. SISISKY. They have been very active as I understand it.

General HORN. Very active. In the civil affairs side I think you can appreciate with those kinds of skills, judges, lawyers, policemen, and those, we really don't have a strong call to keep the preponderancy of this force in the active component, and the civil affairs is made up of over 95 percent in the component. Psychological operations, likewise, two-thirds are in the Reserve component and very busy, as you can appreciate.

Mr. SISISKY. That is why I asked the question. Is there a problem? This tempo is really up.

General HORN. No, sir; the highest OPTEMPO in that group, civil affairs and psychological operations, is in the active component. That one small active duty unit of civil affairs and that is our highest PERSTEMPO, personnel tempo unit. That is at least based on the first month of this year with good hard data projected to be over 200 days a year away from home.

Mr. SISISKY. Wow.

General HORN. It is very high. Yes. We are working them hard. That is the active duty. Our Reserve component numbers are not nearly as high. They don't make our radar screen as being dangerous. And we, like the gentlemen that preceded us, do ask for volunteers and, in most cases, are able to get volunteers.

In our headquarters we have a handful of volunteers to work the Bosnia effort and in all cases they were volunteers to come on active duty. So, I do not see that as a big issue with the Reserve components now. Some are not volunteers, but they have gone forward and met the call that we gave to them.

Mr. SISISKY. Thank you.

Mr. BATEMAN. If the other members would permit me, I would like to indulge Mr. McHale, who has an emergent commitment and has only one question, I am told.

Mr. MCHALE. Mr. Chairman, I thank you and the other members of the committee for the courtesy. I am scheduled to meet with the new brigadier generals in the Marine Corps, and I apologize that I am going to scoot out for that.

General Horn, I am a strong advocate, along with Mr. Weldon and others on this committee, for the V–22, the Osprey aircraft. I had a chance to see two of those aircraft fly at Camp Lejeune, NC, and I am aware of how the V–22 fits into the tactical scenario of the Marine Corps on a battlefield of the future. What does the V–22 mean for you? I know it is an aircraft that you hope to acquire. Could you give me a word picture of what it would mean in terms of enhanced capability?

General HORN. I can, indeed, even though that is not directly related to readiness because we are in the future, but it is an aircraft that will be able to not only—we have the world's greatest penetrators at that point, but we don't have the world's greatest extractors, if you will, from long distances. So, we will have a system that can put our forces behind the enemy lines at great distances with great accuracy, and then be able to extract them.

In addition, the 50 that will ultimately be procured for the special operations forces will replace over 100 rotary wing aging aircraft that are expensive to maintain.

Mr. MCHALE. In light of the courtesy and the time constraints that we have, it was terrific. Thank you very much. I thank you, Mr. Chairman.

Mr. BATEMAN. I think the gentleman got exactly what he was looking for.

Mr. MCHALE. And he knew when to stop asking questions.

Mr. BATEMAN. Mr. Pickett.

Mr. PICKETT. Thank you, Mr. Chairman. And welcome gentlemen. A follow-up question. In some news article recently I read about there being a realization that a problem might arise with the V–22 and inserting people—some people with the backwash from the propellers. Can you tell us anything about that? Is that a problem?

General HORN. No, sir; I cannot. I do know there is ongoing testing, and that particular article that I read myself was a fast rope exercise and by moving the position of the rope, the problems were overcome. And, I will submit information for the record if that is not the case.

Mr. PICKETT. That would be very helpful. Thank you.

[The following information was submitted for the record:]

The CV–22 proprotor downwash effect on unstable surfaces was an area identified during OT–IIA (initial operational testing) that required additional attention. Proprotor downwash effect was not assessed in actual austere environments during OT–IIB (most recent tests, reported January 22, 1996). Until the effect of V–22 proprotor downwash is assessed in austere conditions consistent with current USSOCOM operating environments, this remains an area of moderate risk. Production representative fast rope attachment points will be flight tested from the cabin door and ramp during later flight testing. Keep in mind that fast rope operations are a very small part of the operational use of the CV–22. The primary mission is still deep penetration to perform exfiltration of special operations forces in hostile or denied areas, which does not require fast roping.

Mr. PICKETT. General Begert, there has been a proposal coming out of the Pentagon dealing with the operational support aircraft of the Navy which would, as I understand it, take these aircraft away from Navy operation and put them under the TRANSCOM. Are you familiar with that?

General BEGERT. Yes, sir; I am.

Mr. PICKETT. Is that initiative something that is coming out of TRANSCOM, or is that something that is coming out of the Secretary's office?

General BEGERT. Sir, as you know, the OSA fleet has been under a great deal of scrutiny both from the GAO and from Congress, from OSD and from the CORM. They made a number of recommendations. The Secretary asked the Chairman to get a firm

handle on the wartime requirements for the OSA fleet and the JCS did that.

The Chairman then asked us to take a look at a consolidated scheduling operation and how we would recommend doing that. That was one of the recommendations that came out of the CORM. So, we put a study group together last October to look at how we would do the scheduling as a unified command, not specifically TRANSCOM. It doesn't have to come to TRANSCOM, but we made some recommendations, which we gave to the Chairman in January, not to take the airplanes from the services: Navy, Marines, Army, Air Force, but to do centralized scheduling of those assets to make the best use of those capabilities that are represented in the OSA fleet. And so we have made those recommendations. The Chairman has asked us to go back to him. That is an ongoing process with an implementation plan and we are in the process of doing that as well.

Mr. PICKETT. Mr. Chairman, this is an issue, I think, that bears very strongly on readiness and one that I think this committee should be very careful about. Taking these assets away from the people who have the responsibility for operating other systems, in my mind, is going to diminish their ability to respond and take the kinds of actions that they have become accustomed to taking in order to ensure the efficiency of operation and prompt delivery of personnel in cases where there are emergencies.

I think this is something that we should look at very, very carefully because I see that there are consequences coming out of this that have long-range impacts on the readiness of the military. And I hope that this committee will continue to follow this issue very carefully.

Mr. BATEMAN. The issue is indeed a very significant one. I don't see a timeframe within which we can really get into it in a serious kind of way until our markup. But following markup, it is a part of the oversight role that I think the committee could usefully play.

Mr. PICKETT. Thank you, Mr. Chairman. I have one other question about the intermodal freight demonstration project that comes under TRANSCOM. As I understand it, there is going to be a site on the west coast and a site on the east coast; is that true?

General BEGERT. Sir, that is not really in my area of expertise in operations and logistics. We did the study and got the initial efforts coming from that direction, and we have turned to the joint staff and to the services to take it from here. And so I would ask to submit for the record the current status of that program since we have not been actively engaged in that now, at least I have not been for some time.

Mr. PICKETT. I would specifically like to know whether or not the decision has been made as to where the sites will be located on the respective coasts.

General BEGERT. Sir, the extent of my knowledge is that there has not been a decision on that yet, and I will submit it for the record.

[The following information was submitted for the record:]

The original concept for the Intermodal Installation Program (IIP) was developed by USTRANSCOM. On 31 May 1995, the concept was given to the Services since future decisions affecting installations and communities were more appropriately

Service issues. Currently, the Navy is the only Service actively pursuing the Intermodal Installation Program.

The Navy has been active in this program since its inception and has taken the lead in the future development of the IIP. The Navy believes the program has great potential, not only to fill the original purpose of enhancing deployment and sustainability of US based military forces, but in strengthening the bonds with the civilian communities in which the Navy operates.

The Navy has formed several study groups led by Commander in Chief, Atlantic Fleet to study the Intermodal Installation Program and is being actively pursued by the civilian communities of Norfolk, Virginia, Charleston, South Carolina, and Jacksonville, Florida. USTRANSCOM is unaware of any IIP projects being considered on the West Coast.

Mr. PICKETT. For General Horn, water purification, is that something that is handled through your department, or does that come under other administrative control?

General HORN. Well, if it would apply to, for example, civil affairs, they would have that civilian expertise to go in and help communities rebuild. We have special forces that have that expertise. I have seen it firsthand in Haiti. But water purification doesn't come as this is your job to Special Ops, no, sir.

Mr. PICKETT. So you don't have a detachment that specializes in doing that specific function?

General HORN. No, sir.

Mr. PICKETT. You have to call on the other military departments to get that capability when you require it.

General HORN. Yes, sir; to my knowledge, and if I am incorrect I will correct myself on the record.

Mr. BATEMAN. Mrs. Fowler.

Mrs. FOWLER. General Begert, I want to follow up on Mr. Pickett's concerns about the transfer of the Navy training. I think we need to look at this carefully. I am concerned on that. I am interested in where the intermodal facility is going to be, and I think there are several others on this committee also. Whatever you do with it, there are several of us who are going to be interested in what that decision is.

I am very concerned about the comments you made to Mr. Sisisky on the shortfall and the delay in the sealift and that we are 22 months behind. And you made a comment that now we are trying to buy some of these ships on the open market. Are you trying to buy foreign? What are you trying to do here?

General BEGERT. We are trying to buy 5 more roll-on/roll-off ships to complete the buys up to the 36 required by the mobility requirement study. The open market is such that there are no U.S. RO/RO ships to buy. They are not out there. And so it would have to be bought foreign, brought to a U.S. yard and converted. We had that appropriated last year, money to do that, but not authorized, and so we still want that as a top priority for our surge sealift.

Mrs. FOWLER. You have still got to get Mr. Hunter to approve your buying these.

General BEGERT. Yes, ma'am.

Mrs. FOWLER. I am concerned about the 22 months behind, and I would be interested along with Mr. Sisisky and Mr. Bateman to followup on what is happening there. This isn't good. And according to your testimony, we are at 65 percent of the capacity and in 5 years we should catchup, but that is based on today's needs and not the needs 5 years from now. So 5 years from now we are prob-

ably still going to be behind. It seems like the faster we go the behinder we are getting. We need to do what we can to speed it up. We will be interested in looking at how we can work with you.

Mr. BATEMAN. Thank you, Mrs. Fowler. Mr. Everett.

Mr. EVERETT. Mr. Chairman, I am going to have some questions for the record and I will pass those on later.

Mr. BATEMAN. Do any of my colleagues on the left have any further questions? No?

If not, we thank you both for being here and the staff may well have some questions that they will submit for the record. And, like the previous panel, if you could have a turn around time of 2 weeks on those, we would appreciate that. Thank you very much for being here with us this afternoon. The hearing is adjourned.

[Whereupon, at 4:19 p.m., the subcommittee was adjourned.]

MAJ.GEN. ERIC K. SHINSEKI
U.S. ARMY

RESPONSES TO
MEMBERS' QUESTIONS
FOR THE

MARCH 19, 1996
HEARING RECORD
ON

FORCE READINESS

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
FORCE READINESS
19 MARCH 1996

QUESTION #1

FUNDING FOR BOSNIA OPERATIONS

Mr. Bateman. We have heard rumors that the supplemental and reprogramming request needed to cover Fiscal Year (FY) 96 costs for Bosnia is underfunded. If this is true, what will be the impact on your FY 96 program? Will there be a reduction in flying hours, a reduction in programmed maintenance including scheduled ship repairs, and/or a reduction on the amount of scheduled training?

Major General Shinseki. The current FY 1996 Army cost estimate for contingency operations in Bosnia is $1,656.8 million. The current Department of Defense (DoD) cost estimate for United States Army participation in FY 1996 Bosnia operations falls $162.8 million short of the Army's estimate; $52.5 million in Operations and Maintenance, Army (OMA), $96.3 million in Military Personnel Army (MPA), and $14.0 million in procurement appropriations.

The Army will protect near-term readiness as long as possible, particularly for the early deploying units. Funding at the DoD estimate level will allow the Army to train through the year end provided that additional funding is assured by 15 May. However, we will have to defer real property maintenance and selected depot maintenance in order to absorb the $52.5M shortfall in OMA without negatively impacting near-term readiness. This is not an optimal solution. Reductions to these programs will have negative impacts in the future. The Army is also very concerned that a funding commitment will not be extended in time to ensure stable training schedules through year end. We need your help to: (1) provide adequate funding, and (2) provide funding in a timely manner.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
MILITARY READINESS SUBCOMMITTEE
FORCE READINESS
19 MARCH 1996

QUESTION NUMBER #2

FUNDING FOR BOSNIAN OPERATIONS

Mr. Bateman: The Fiscal Year 1996 (FY 96) Defense Authorization Act contains a number of provisions dealing with civilian personnel. In particular, section 1031 prohibits the use of Full Time Equivalent (FTE) personnel ceilings in the management of the Department of Defense's civilian workforce. Section 1032 requires the Secretary of Defense to convert not less than 10,000 military positions to performance by civilian employees of the Department of Defense over a two-year period. How are these two provisions being implemented within your respective services?

Major General Shinseki: The Army supports a civilian manpower management policy which provides the maximum flexibility to determine the most efficient and cost effective manpower mix to accomplish the mission within limited resources.

The Army maintains that military personnel should be used in support functions essential to mission accomplishment. While there are opportunities to convert military positions to civilian, there must be a corresponding increase in Full Time Equivalents (FTEs) and funding. To attempt such a conversion effort without adequate resources will severely erode missions performed by the civilian workforce.

The Army is waiting for the Office of the Secretary of Defense's implementation guidance on Full Time Equivalents (FTEs) and on military to civilian conversion.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON MILITARY READINESS
FORCE READINESS
19 MARCH 1996

QUESTION #3a, b, c, d, e

READINESS INDICATORS

Mr. Bateman. Over the past couple of years, the Services and Department of Defense (DoD) have been developing comprehensive systems to measure readiness indicators, both from the individual Service readiness perspective and from a joint readiness perspective. Last year we were informed that the DoD was creating a "readiness baseline of indicators" to assess the current and future state of readiness. Do you now feel that we are getting accurate and rapid data that adequately measures force readiness?

Major General Shinseki. The Army is satisfied with the readiness assessments it gets through the Unit Status Reports. We feel the information is accurate and gives us an accurate assessment of the readiness of the reporting units. We are always looking to improve our readiness reporting and the timeliness of the assessments we receive. We are currently working with the Office of the Secretary of Defense to establish "readiness baseline indicators".

Mr. Bateman. What improvements have you seen in the last year?

Major General Shinseki. Our efforts, in conjunction with those of the Office of the Secretary of Defense, have been to collect data and conduct analysis for the "readiness baseline indicators".

Mr. Bateman. Does more need to be done, or are we there?

Major General Shinseki. As the Army continues to modernize and move into the 21st Century, our readiness reporting, in the form of "readiness baseline indicators," will continue to evolve as well. "Readiness baseline indicators" will better assess readiness at the Service level. At this point, I believe we are on the right track, but would like to reserve any further comment until we complete collecting and analyzing this data in conjunction with the Office of the Secretary of Defense.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON MILITARY READINESS
FORCE READINESS
19 MARCH 1996

QUESTION #3a, b, c, d, e

READINESS INDICATORS

Mr. Bateman. What is the status of efforts to identify and measure readiness indicators with predictive value?

Major General Shinseki. The Army is providing input to the Office of the Secretary of Defense as they attempt to normalize data to determine benchmarks and establish historic trends for service indicators.

Mr. Bateman. What indicators, besides those contained in the Status of Resources and Training System, are particularly relevant for assessing the readiness of forces that are used frequently in contingency operations?

Major General Shinseki. Although analysis is not yet complete, there could be some indicators in the areas of personnel, morale, and quality of life programs that may reveal readiness trends for frequently deployed units.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON MILITARY READINESS
FORCE READINESS
19 MARCH 1996

QUESTION #4a, b, c

READINESS INDICATORS

Mr. Bateman. In your opinion, how effective has the Senior Readiness Oversight Council been since its inception last year?

Major General Shinseki. The Senior Readiness Oversight Council has been very effective in providing a forum to review the status of readiness, both at the Service and Joint Chiefs of Staff level. It provides the opportunity for the Deputy Secretary of Defense, other key Office of the Secretary of Defense members, Vice Chairman of the Joint Chiefs of Staff, Service Chiefs and Service Under Secretaries to sit down monthly and focus discussion on the status of readiness and key readiness issues.

Mr. Bateman. What significant contributions has the Council made in dealing with readiness issues?

Major General Shinseki. One significant contribution has been to relay current and future readiness concerns to the Deputy Secretary of Defense and key Office of the Secretary of Defense staff, as well as make an overall assessment concerning the Department of Defense's ability to execute the National Military Strategy.

Mr. Bateman. What are some of the tangible items that have emerged from this process?

Major General Shinseki. One significant item has been to highlight the potential impact on readiness of not being reimbursed for our unprogrammed costs of ongoing contingency operations. In addition, we have laid the ground work to establish a Joint Automated Readiness Systems, which will provide a vehicle to access readiness information that is reported via the Joint Monthly Readiness Review. This information includes input from both the Commanders-In-Chief (CINCs) of the unified and specified commands, as well as, Services and Combat Support Agencies.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON MILITARY READINESS
FORCE READINESS
19 MARCH 1996

QUESTION #5a, b

READINESS INDICATORS

Mr. Bateman. Since the inception of the Joint Monthly Readiness Review (JMRR) process and the Senior Readiness Oversight Council (SROC) a little more than a year ago, how have these reviews improved the Department of Defense's ability to assess readiness?

Major General Shinseki. The Joint Monthly Readiness Review and Senior Readiness Oversight Council have provided a forum for the Department of Defense to review assessments of the Commanders-in-Chief of the unified and specified commands, Services and Combat Support Agencies in terms of current readiness, future readiness, and in their ability to support various scenarios. The Joint Staff analyzes the assessment and makes an overall conclusion of the Department of Defense's ability to execute the National Military Strategy.

Mr. Bateman. What trends have been identified as a result of these reviews?

Major General Shinseki. A significant trend is the impact of unprogrammed costs of contingency operations on readiness. The Army is particularly concerned with this as the Army has the bulk of unprogrammed costs for Operation Joint Endeavor.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
MILITARY READINESS SUBCOMMITTEE
FORCE READINESS
19 MARCH 1996

QUESTION #6

READINESS FUNDING

Mr Bateman: It is widely reported that there is a competition between near-term readiness and modernization -- future readiness, with force structure as the potential loser. At the same time, there is a decided tip in the resourcing the tooth to tail ratio -- with more resources going to fund defense support infrastructure than to combat capability. Please describe efforts that you are taking to ensure that infrastructure costs are reduced so that savings can be channeled into near-term and future readiness. How can this process be facilitated?

Major General Shinseki: The Army has embarked on an ambitious campaign to become the most efficient organization possible and free up scarce resources for modernization. To achieve balance, the Army is pursuing initiatives and efficiencies throughout the breadth and depth of our operation. Nothing is off limits. We are conducting a functional area analysis of every aspect of the Army, from the fighting force to the infrastructure (bases, facilities, and support organizations). We are looking for innovative ways to divest ourselves of unneeded real property, including privatization of functions such as utilities and housing. Partnering with civilian communities to reduce infrastructure requirements is also being explored as a viable alternative. Wherever possible we are accelerating implementation of the recommendations of the Base Realignment and Closure Commission to the maximum extent possible within available resources. We are also reducing our infrastructure requirement by eliminating excess facilities. We continue to reduce leases and to demolish one square foot for every square foot constructed. Certain restrictions, such as restrictionns on the amount of depot maintenance that can be privatized, limit our potential in this area. Further, a reduction in the number of restrictions imposed on individual programs through floors and ceilings would provide the Army greater flexibility in reprogramming funds. The efficiencies gained through this relief would allow the Army to better manage the scarce resources needed for both current and future readiness. While current readiness levels are adequate to meet the near term needs of the nation, long term readiness is dependent upon a sustained and stable investment in programs that will develop and procure the very best equipment.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON MILITARY READINESS
FORCE READINESS
19 MARCH 1996

QUESTION #7a, b, c

FORCE READINESS

Mr. Bateman. The deployment of personnel in support of contingency operations has increased over the last few years. This increased pace of operations has fallen most heavily on a small number of critical units with unique specialties, including special forces, electronic warfare, and military police. What other types of forces have been heavily impacted by contingency operations? How has the readiness of these forces been effected over the last few years? Would you please identify key indicators that would provide the most measure of deployments' impact on personnel readiness?

Major General Shinseki. The critical specialties with the highest Personnel Tempo (PERSTEMPO) remain Special Operations, Military Police, PATRIOT Operators and Maintainers, engineers and, increasingly, Infantry. Through intensive management, readiness for units with these types of specialties has remained constant although turbulence and retention are areas of concern. At the Department of Army we typically monitor the personnel readiness by determining that we have the right number of trained soldiers in the correct grade and specialty.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
MILITARY READINESS SUBCOMMITTEE
19 MARCH 1996

QUESTION # 7d.

OPERATING TEMPO (OPTEMPO) AND PERSONNEL TEMPO (PERSTEMPO)

Mr. Bateman. The deployment of personnel in support of contingency operations has increased over the last few years. This increased pace of operations had fallen most heavily on a small number of critical units with unique specialties, including special forces, electronic warfare, and military police. What are the advantages and disadvantages of changing the force structure to increase the number of critical units with unique capabilities, assuming no increase in total force structure?

Major General Shinseki. The Army does not base its force structure requirements on contingency operations. Rather, those requirements are based upon an analysis of potential security threats to the Nation. That analysis yields the number and type of combat forces necessary to meet the threat and support the National Military Strategy (NMS). Once the required number of combat forces has been established, the Army utilizes a process known as Total Army Analysis to determine the number and type of combat support (CS) and combat service support (CSS) forces necessary to support the NMS. Currently, the Army is short nearly 60,000 combat support and combat service support forces. Continued, unencumbered access to the reserve component is key to support of contingency operations. Additionally, the Army National Guard (ARNG) Division Redesign Study is examining the feasibility of converting existing ARNG combat forces to CS and CSS forces to help reduce the support force shortage. The results of this study will be presented to the Secretary of Defense, for decision in April.

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QUESTION #8

FORCE READINESS IN THE FUTURE

Mr. Bateman. You have been experiencing an increase in the pace of operations for the past several years. If this pace continues, what needs to be done to ensure force readiness in the future? What plans are there in the fiscal year (FY) 97 budget request, or in future years, to recognize the increased usage of personnel and equipment?

Major General Shinseki. To ensure future force readiness, if the pace continues, America must continue to support and maintain an Army of sufficient quality, capability, and size to meet our operational commitments and deter any potential adversaries. This is a challenge for Army planners in today's constrained resource environment.

With respect to increased personnel and equipment usage, the FY 1997 budget emphasizes and provides adequate resources in four major areas: recruiting quality people, training and developing leaders, equipping the force, and supporting family programs.

The budget increased resources to recruit competent soldiers and civilians who will make up the Army of the future. The Army will also continue to use Reserve Component units to alleviate shortages in combat support and combat service support forces.

It also provides resources to ensure soldiers are trained to the Army's standard of excellence and are capable of adapting to any situation anywhere in the world. Included also are resources to support long-term education and training goals to develop competent, confident, professional military and civilian leaders.

Depot maintenance is currently the only source of fully reconditioned or overhauled weapons systems and equipment replenishment or redistribution. This program is adequately funded and supports both sustainment and logistics items that are critical to near-term readiness and the Army's modernization efforts. Although constrained resources prohibit large modernization investments, the Army will continue to buy a limited number of weapons systems and improve capabilities of existing systems.

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QUESTION # 9

Impact of Contingency Operations

Mr. Bateman: What impact do operations in Bosnia have on the Services' ability to undertake another major mission simultaneously? Please provide responses by Service, and comment on the availability of combat and support elements needed for a second operation.

Major General Shinseki: The Army can continue supporting the Bosnian deployment and provide the necessary forces to undertake another major mission simultaneously. The Army has analyzed potential adjustments for those units deployed to Bosnia that are also on troop lists in the event of a Major Regional Conflict (MRC). Those organizations would be replaced with like units upon deployment. The Army provides combat, combat support, and combat service support forces from the Total Army (Active, Guard, and Reserve), that are available and would be provided from each component for any given MRC that develops. The responsibility for contingency operations planning (e.g. Bosnia) belongs to the regional warfighting Commanders-in-Chief (CINCs). The Army resources their plans with the most qualified and available soldiers and units from all three components. Planning for the Bosnian deployment has added the complexity of alliance integration. The Army assists in planning, but mission adjustment decisions such as when to begin withdrawal from Bosnia will be above the Service level. The Secretary of Defense has been briefed on the classified assumptions of the plan for the withdrawal of forces from Bosnia. Military planners base plans for two MRCs, a key element of our National Military Strategy, based upon those assumptions which pertain to the timeliness of withdrawal decisions. Army planners continually address and update input to plans to withdraw Army forces from on-going contingency operations in a timely manner to ensure success if one or two MRCs develop.

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PREPOSITIONED EQUIPMENT

Mr. Sisisky: What is the status of the Army's initiatives for prepositioning equipment at strategic locations around the world? What are the problems you're encountering implementing your plan?

Major General Shinseki: The Army's Power Projection program is a triad of capabilities: Airlift, Sealift and Prepositioned Equipment. The Airlift program is well sourced as a result of the 3 November Acquisition Decision Memorandum announcement to replace the aging C-141 fleet by procuring 120 C-17s by 2006. The Army wholeheartedly supports a buy of at least 120 C-17s under a multi-year procurement that would accelerate fielding of the C-17 at considerable savings (up to $900 million). The Army appreciates the Air Force's commitment to strategic airlift in the form of the C-17, especially during OPERATION JOINT ENDEAVOR. During the peak deployment period, twelve C-17s flew 456 (26%) missions, delivered 3,159 passengers (21%) and 16,282 (44%) short tons of equipment while maintaining an approximate 97% logistics reliability rate. When changes in Implementation Force (IFOR) plans required the rapid movement of a company of M2 Bradley infantry fighting vehicles, crews and ammunition, the C-17 provided the bulk of the capability for direct delivery from Germany to Tuzla, Bosnia. The single day movement used 13 C-17 sorties to move 15 M2 Bradleys, 12 HMMWV/Trucks, 1 M-88 Recovery Vehicle, 3 M113s, 2 forklifts, 2 HEMTTs, and 114 soldiers. C-17s airlifting the Bradley fighting vehicles completed Engine Running Offloads (EROs) in an average of 23 minutes. Five C-17s were used to move bridging sections for 5 Armored Vehicle Launched Bridges (AVLBs) from Germany to Taszar, Hungary as the AVLBs were too large for rail and/or road movement. AVLBs were used to assist with bridging requirements along the main supply route south of the Sava River crossing. These facts reveal the emergence of a strategic airlift superstar which will provide the US Military a greater level of strategic flexibility than ever before.

The sealift procurement program is improving; although it will still be several years before the current shortfall in sealift is remedied. The first of the Large, Medium Speed, Roll-on, Roll-off Ships (LMSRs), the USNS Shughart, is scheduled for delivery to the Army in January 1997. This ship has completed its initial sea trials and is now undergoing follow-up shipyard work required as a result of those trials. With this ship, the Army will begin transloading its afloat prepositioned equipment sets from the older RO/ROs, in order to achieve the Defense Planning Guidance directed afloat prepositioned objective of 2 million square feet of equipment. If the delivery of LMSRs continues as currently scheduled, the expansion of the Army's afloat prepositioned equipment sets will be complete in late 1999. The Navy is also completing the conversion of two RO/ROs procured in fiscal year (FY) 95. When the conversion of these two

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ships is completed this summer, United States Transportation Command (USTRANSCOM) will have 31 of the required 36 surge sealift RO/ROs. The shortfall of five RO/RO ships remains a concern to the Army as it looks to satisfy its responsibilities under the National Military Strategy. Lastly, the eight Fast Sealift Ships (FSS) have been a cornerstone of USTRANSCOM's sealift capability since the Department of Defense (DOD) began acquiring them fourteen years ago (1982). As these ships begin to reach the end of their service life in the 2007-2010 timeframe, innovations in Fast Ship technology could provide a satisfactory FSS replacement capability.

The Army's own prepositioning program is moving forward as well. Our prepositioned equipment sets contibute substantively to forward engagement with our allies in vital regions of the world. The Army demonstrates U.S. commitment to its allies and maintains the peace with its trained forces by being ready on eighteen hours notice to begin deploying heavy and/or light brigade forces to deter or defeat threats to our Nation's vital interests. The status of our prepositioned sets follows:

In the US European Command's Area of Responsibility (AOR), the Army is drawing down from four brigade sets of equipment, a division base set of equipment and echelons above division unit sets of equipment to an endstate of two brigade sets of equipment in the Central region. Each of these two sets is a two armored battalion, one mechanized battalion, brigade set (approximately 120 Abrams tanks and 60 Bradley fighting vehicles). There is a battalion of self-propelled 155mm howitzers prepositioned with the U.S. Marine Corps' (USMC) brigade set of equipment in Norway. There is also a two armored battalion, two mechanized battalion, brigade set of equipment in the Southern Region. The Army's additional unit sets of prepositioned equipment in the Central region are being redistributed, over the Program Objective Memorandum (POM) years, to fill Army's other prepositioned sets of equipment around the globe. Currently, some of this equipment is being utilized in OPERATION JOINT ENDEAVOR (e.g. bridging, heavy equipment transporters, HMMWVs).

In the US Central Command's AOR, the Army has a two armored battalion, one mechanized battalion, brigade set of equipment in the Northern Region. Recently, the Army added a Multiple Launched Rocket System battery to the Northern Region set (fall 1995). There is a heavy battalion task force set of equipment in the Southern Region which arrived in January 1996. This is the lead battalion set for the second heavy brigade (two armored battalions and one mechanized battalion) which is programmed for this region. Lastly, there is an operational Patriot missile battalion defending vital points in the region.

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PREPOSITIONED EQUIPMENT

In Korea, the Army is establishing a prepositioned heavy brigade set of two armored battalions and one mechanized battalion. All of the Abrams tanks and Bradley fighting vehicles are in Korea. The remainder of the equipment is scheduled to be delivered over the next couple of years.

The Army's Prepositioned Afloat set of equipment consists of a two armored battalion, two mechanized battalion, brigade set loaded on five RO/ROs; a theater opening set of equipment loaded on two RO/ROs; a port opening set of equipment loaded on a Heavy Lift Prepositioned Ship and a T-class Auxiliary Crane Ship; and sustainment stocks loaded on five container or "Lighter Aboard Ship" (LASH) ships. In January 1997 the Army will begin transloading its afloat prepositioned equipment from RO/ROs to LMSRs. When these ongoing progams are completed in 2001, the US will possess the capability to project a five and one third division sized force to any foreseeable major regional contingency in seventy five days.

Like the ongoing enhancements for airlift, sealift and prepositioned equipment, the infrastructure program is also improving the Army's deployment capability in a substantive way, but the Army has not yet completed them. Over the POM years, there is just slightly over three billion dollars for procurement of essential equipment (e.g. railcars, containers, a Gantry crane and other materiel handling equipment), or construction/repair of deployment infrastructure (rail, airfields, seaport facilities) and training. In fact, the Army has made great progress in deployment planning and execution over the past five years. Deployment readiness exercises, known as Sea Emergency Deployment Readiness Exercises (SEDREs), have become a cornerstone of the Army's training program. Conceived after Operation Desert Shield/Desert Storm, SEDREs are in their fifth year of execution. Each of the Army's contingency corps divisions conducts at least one SEDRE per year as part of an essential training program to hone the Army's ability to project decisive power rapidly. By the year 2001, these strategic mobility infrastructure enhancements will insure that America's Army can close its deploying forces to the Continental U. S. (CONUS) seaports within the short timelines required.

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QUESTION #12

FORCE READINESS

Mr. Everett. In the first days of the Bosnia Deployment, we all heard about the tent city that was washed out as a result of the nearby river flooding. Could you provide the committee with the latest situation on tents in theater, and the overall living conditions of U.S. Forces is Bosnia.

Major General Shinseki. Soldiers are trained to deal with the austere conditions that greeted them in Bosnia, Croatia, and Hungary and were prepared to live initially in tents or in vacant permanent structures. As the initial forces arrived, we began building base camps. At this time, of the twenty-four planned base camps in theater, twenty-three have been completed. This includes hard-wall billeting, dining facilities, kitchens, hot showers, latrines, lighting, and electrical and water distribution. The uncompleted base camp is awaiting delivery of billeting modules. We expect completion of this camp in the very near term. Living conditions within base camps have improved significantly.

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QUESTION #13

SUPPLY OF TENTS IN BOSNIA AREA OF RESPONSIBILITY (AOR)

Mr. Everett. Do we have a sufficient supply of tents in theater?

Major General Shinseki. Yes. In addition to the tents shipped with Force Provider, 3,414 GP medium and 600 TEMPER (Tent, Modular, Extendable, Personnel) tents were procured from the Defense Personnel Support Center (DPSC) and shipped into theater. In conjunction with United Nations billeting containers, modular buildings, and fixed facilities, the tentage is providing billeting, medical, religious, dining, administrative and Morale, Welfare and Recreation (MWR) facilities.

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QUESTION #14

EFFECT OF ENVIRONMENT ON TENTS

Mr. Everett: Are the tents withstanding the harsh winter environment over there?

Major General Shinseki: Yes, with the exception of some minor problems with zippers on the TEMPER (Tent, Modular, Extendable, Personnel) tents and damage caused by high winds in February.

Initially, leaking problems were experienced with the GP medium tents and the normal field fix (seam sealant) could not be applied due to the cold weather. The Soldier System Command (SSCOM) and Defense Personnel Support Center (DPSC) coordinated to determine alternatives that could be applied in cold weather. An alternative (seam tape) was developed and a team deployed to Europe to initiate installation. DPSC also developed, procured, and deployed rain flys for the GP medium tent. Both fixes are proving to work well.

The problem with the zippers on TEMPER tents was previously identified during the Force Provider Cold Weather Test. The test determined a requirement for doors to be utilized with the TEMPER tent in cold weather. The door will be included in the Force Provider Cold Weather Kit in future deployments.

During the wind storm in February, some tents were damaged by flying objects and others blew down because the tent pegs ripped out of the muddy ground, even though longer tent pegs designed for this type of ground were utilized. These tents were quickly repaired and re-erected.

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QUESTION #15

ARMY TENTAGE STOCKPILE

Mr. Everett. What is the current level of our tent stockpile, and is that adequate?

Major General Shinseki. Tents are Common Table of Allowance (CTA) items and procured by each unit using Operations and Maintenance, Army (OMA) funding. Army stockpiles are stored as War Reserve materiel. Currently, tents stored in War Reserve stockpiles are below their required levels. In order to procure sufficient tentage from Defense Personnel Support Center (DPSC) to meet War Reserve requirements, $24.1 million OMA funds are required.

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QUESTION #16

INDUSTRIAL BASE FOR TENTAGE

Mr. Everett. Do we have a stable industrial base for tents?

Major General Shinseki. Due to a limited production base for tentage items, combined with the need to support a variety of efforts for National Defense and Humanitarian Relief, availability of tentage items has previously been a concern.

However, the Defense Personnel Support Center (DPSC) has initiated several steps to maintain a viable source of supply for tentage items. Numerous requirements have been filled utilizing the authority of 10 USC 2304(c)(3), thereby, allowing for both the maintenance and expansion of the industrial base. In instances that would warrant, Indefinite Delivery Type contracts, with two successive term option periods, are being utilized. This allows for maximum flexibility in satisfying requirement, while providing long term contracts to the vendors.

Recently, two large tent suppliers were suspended from dealing with the Government. However, DPSC continues to maintain the industrial base by closely monitoring the production lines of each manufacturer, making directed awards, and implementing new initiatives; such as complete TEMPER tent procurements and procurement of low cost commercial tents for humanitarian and disaster relief.

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QUESTION #17

IMPACT OF CONTINGENCY OPERATIONS

Mr. Bateman. Will you provide an assessment on the impact of Operation Joint Endeavor on Army Readiness?

Major General Shinseki. The Army has continued to maintain a high state of readiness throughout Operation Joint Endeavor. However, there are two concerns that it has highlighted. The first is maintaining a robust noncommissioned officer corps, and the second is the necessity for present contingency funding. The Army implemented some personnel policy actions to ensure Task Force Eagle, which is executing Operation Joint Endeavor, was manned at the requisite level. Operation Joint Endeavor personnel policies delayed our recovery from spot imbalances created by force structure and personnel drawdown programs, as normal personnel distribution was interrupted to fill Task Force Eagle to the requisite level. We also capped our noncommissioned officer (NCO) strength at 98% to save Military Personnel Account dollars. All of these contributed to a shortfall of noncommissioned officers in some of our active component major combat units. The problem showed improvement recently as we increased promotions to the NCO ranks and soldiers started to rotate to the states from Europe. The Army's greatest concern, and potentially the most significant impact on readiness, is the delay in full supplemental and reprogramming funding requests. Delays in approval will force the Army to revise training schedules and potentially stop training. This in turn could degrade readiness. Additionally, degradation in training readiness would require additional training time to return to required readiness levels once resources become available. Additional actions which may be taken to manage funding shortfalls include stopping real property maintenance and depot maintenance in order to meet all fixed costs through year end. The Army is very concerned that a funding commitment be approved in time to ensure stable training schedules through year end.

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QUESTION #18

FORCE READINESS

Mr. Bateman. Given the demands of the Bosnia deployment on U.S. Army Europe, what ground combat power remains available in Europe and what other crisis could be met with Army Forces in Europe?

Major General Shinseki. Elements of V Corps, the majority of the 1st Infantry Division and Southern European Task Force (SETAF) remain in Europe. These forces could respond to a Lesser Regional Contingency (LRC) in the European Command (EUCOM) area. The Army can continue supporting the Bosnian deployment and provide forces to successfully undertake a simultaneous Major Regional Contingency (MRC) with augmentation from outside EUCOM. If required, the warfighting regional Commander-in-Chief would request additional forces from the National Command Authority. Army planners continually review plans requiring Army forces committed to on-going contingency operations to ensure the Army's ability to meet the requirements for one or two MRCs. The Secretary of Defense has been briefed on the classified assumptions pertaining to the timeliness required for decisions to withdraw forces from Bosnia to meet a two MRC scenario.

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QUESTION #19

IMPACT OF CONTINGENCY OPERATIONS

Mr. Bateman: Forces engaged in peace operations often lack the opportunity to fully train in their warfighting skills. With respect to operation Joint Endeavor, the subcommittee is aware that efforts are being made to allow forces deployed in support of this operation to maintain warfighting skills, through, for example, the establishment of live-fire training ranges in Hungary. What is the status of these efforts? What, if any, problems have been encountered in using these training ranges?

Major General Shinseki: 7th Army Training Command (7ATC) has established live-fire range complexes at Kaposvar and Taborflava, Hungary, at Gasinci, Croatia, and at Resolute Barbara, Bosnia-Herzegovina. The ranges at Kaposvar are complete and operational. It is anticipated that the first units will rotate in approximately two weeks. The range at Taborflava is complete. The first units will rotate through in approximately two weeks. The Croatian and Bosnia-Herzegovina ranges will be complete within the month. Only minor modifications were required on all of these ranges to make them suitable.

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QUESTION #20

IMPACT OF CONTINGENCY OPERATIONS

Mr. Bateman. Are you confident that the funding level for operation JOINT ENDEAVOR in the Fiscal Year (FY) 97 budget request is adequate to cover the cost of operations, re-deployment, and re-constitution of the force?

Major General Shinseki. The Army FY 97 budget request included $411.3 million for contingency operations in Bosnia ($410.1 million - Implementation Force (IFOR) Operations and $1.2 million - Able Sentry). This was the Army's best estimate available when the budget was prepared. We continue to monitor the FY 96 costs and the effects on the FY 97 cost requirements. We will inform Congress of any change to our FY 97 budget request.

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QUESTION #21

IMPACT OF CONTINGENCY OPERATIONS

Mr. Bateman: For the soldiers that have deployed to Bosnia, what arrangements have been made to maintain their normal training objectives? How long will it take to bring these deployed soldiers back up to a fully trained status after re-deployment?

Major General Shinseki: We have taken a number of steps to ensure the deployed soldiers maintain their normal training proficiency. We have established live fire ranges in Hungary, Croatia, and Bosnia-Herzegovina and will rotate units through these ranges for soldiers to maintain a high level of gunnery proficiency. We have deployed a number of training aids, devices, and simulators to be used in Bosnia-Herzegovina where live fire training is not possible. Finally, we will establish Video Tele-Training facilities to link soldiers with instructors located around the world for continued professional development. Even with all of these efforts, it will still take us approximately six to eight months of concentrated effort to bring all these soldiers up to their fully trained status.

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QUESTION #22

IMPACT OF CONTINGENCY OPERATIONS

Mr. Bateman. What is being done to address the morale, welfare and recreation needs for the soldiers deployed in Bosnia?

Major General Shinseki. The U.S. Army, Europe support plan currently targets twenty-five locations for Morale, Welfare and Recreation (MWR) in the theater. MWR activities include fitness equipment and organized activities, board and table games, library support, and video cassette recorders/televisions. Brigade Recreation Specialists (BRS) are formally trained civilians who augment major deployable units, and deploy in support of the unit as soon as conditions permit. They provide programs to soldiers at seven locations and additionally supervise and logistically support the soldier operated activities at the remaining sites.

A Rest and Recuperation (R&R) program has been established for U.S. service members and Department of Defense (DoD) civilians serving tours of more than 180 days. A fifteen day absence is authorized with travel time as non-chargeable leave, the remainder as chargeable leave. Transportation is furnished to Frankfurt, Germany, and at the option of the individual, on to Philadelphia, Pennsylvania. Further travel and recreation will be at the individual's expense.

There are several quality of life initiatives for soldiers deployed to Bosnia which the Army supports, but for which the Army is not the proponent. Stars and Stripes newspapers are available at all sites. Army and Air Force Exchange Service (AAFES) has eleven retail stores currently operating and will have some retail support at all sites as soon as logistics allow. AAFES-contracted commercial telephone service (American Telephone and Telegraph) to the U.S. and Germany is currently operating at fourteen sites, and all are scheduled to be operational in April.

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QUESTION 23

MAJOR REGIONAL CONTINGENCY (MRC) COMMITMENT

Mr. Sisisky: What would be the impact on the Army's ability to meet its wartime requirements and/or respond to contingency operations with a force structure of 475,000?

Major General Shinseki: Looking first at contingency requirements, since the end of the Cold War, the Army has experienced an increase in the number of soldiers deployed away from home station. On any given day, the length of time the average soldier is deployed away from home, either in training or contributing to a contingency operation, has increased significantly. For example, this fiscal year the Active Army has routinely had over 21,000 soldiers deployed to over 60 countries on any given day. Factoring in the deployment of soldiers to Bosnia, this daily average has increased to nearly 40,000. While we would be able to meet current operational requirements, a decrease in the Army's end strength would exacerbate our already high personnel tempo, degrading readiness and, with it, our warfighting capability.

Active Army end strength of 495,000 represents the minimum level for a force of 10 Active Component (AC) divisions to be able to execute the National Military Strategy (NMS) at an acceptable level of risk. Our Total Army Analysis process validated the capability, and attendant risks, of the 495,000 AC force to execute two Major Regional Contingencies as required by the NMS. To my knowledge, the warfighting and sustainment capabilities of a 475,000 AC force have never been modeled or analyzed in any way. As noted above, however, reductions below 495,000 certainly would degrade readiness. In fact, below 495,000 the ability of the active Army to execute the National Military Strategy becomes problematic, particularly given our current operational deployments. At lower levels, the Army would undoubtedly require more time and resources to win the conflict and the cost to the nation would be higher.

For that reason, we feel that 495,000 is the right active Army end strength. The reduction of the Active Army's end strength below 495,000 would have an undeniable affect on readiness. This reduction in readiness would limit the Army's ability to respond to the needs of the President's National Security Strategy (NSS). Further reductions would greatly limit our ability to project combat power in support of the NSS and would relegate us to a contingency force, capable of a much decreased response. As a contingency force there would a requirement for more time and resources to win a potential conflict at a much increased risk, resulting in a higher cost to the nation.

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QUESTION NUMBER 24

ARMY REENGINEERING

Mr. Bateman. In General Blackwell's statement, it is noted that there is an aggressive effort underway to re-engineer the way the Army does business to free resources to maintain force structure and invest in modernization. Please explain these efforts and the opportunities for achieving savings.

Major General Shinseki. In July 1995, the Chief of Staff of the Army directed a senior-level review of policies and procedures within Headquarters, Department of the Army to identify potential efficiencies that could generate savings for the Army to reinvest in modernization and force structure.

The staff developed and evaluated over 120 wide-ranging initiatives for possible savings. While the BOLD VENTURE review achieved some savings across Program Objective Memorandum 98-03, it is expected that even greater savings will be identified by the leadership of our Major Commands. An important outcome of the review has been the reemphasis of Efficiencies as an Army-wide business philosophy. The message that is reaching the field is that being more efficient is the duty of not only management but of the individual soldier and civilian as well.

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QUESTION #25

READINESS FUNDING

Mr. Bateman. The budget request for fiscal year (FY) 97 only funds 86% of your depot maintenance requirements. How concerned are you with this shortfall in depot maintenance funding and will this impact on your ability to meet your mission requirements and/or future contingency operations?

Major General Shinseki. Depot maintenance is currently the only source which provides fully reconditioned/overhauled weapon systems and equipment for replenishment or redistribution. The FY 97 Army depot maintenance budget adequately funds sustainment and logistics items which are critical to near-term readiness and supports the Army's modernization efforts.

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QUESTION #26

AMMUNITION SUSTAINMENT REQUIREMENTS

Mr. Bateman. The budget request for fiscal year (FY) 97 only funds 74% of your ammunition sustainment requirements. What is the impact of this shortfall? What won't get done?

Major General Shinseki. That funding level is sufficient to support all of our ammunition safety, security and readiness related shipping requirements. The shortfall impacts our ammunition stockpile management functions, primarily inventories, inspections and maintenance. The Army would require an additional $145 million to fully fund all of our ammunition sustainment functions.

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QUESTION #27

JOINT OPERATIONAL PLANNING AND EXECUTION SYSTEM

Mr. Bateman. It is my understanding that the Joint Operational Planning and Execution System (JOPES) is under review due to repeated problems from deployments to Somalia, Haiti, and now Bosnia. These problems included finding that the wrong type of lift, too much lift, or no lift at all was assigned to particular missions and that part of the problems stem from the individual services not clearly defining their movement requirements. What is your view of the JOPES system and what can be done to improve it?

Major General Shinseki. JOPES remains an efficient and reliable system which requires some modification to accommodate the changes in the nature of recent and future deployments. The Chairman of the Joint Chiefs of Staff has directed a comprehensive review of the system to identify those improvements. Although that review will provide a more encompassing addressal of the enhancements needed, it is fair at this point to suggest that, from an Army perspective, at least two immediate enhancements are necessary. Procedures foı documenting and processing Time-Phased Force and Deployment Data (TPFDD) must be standardized in greater detail. Supporting detailed procedures now differ among supported Commanders-in-Chief (CINCs) and these differences can cause confusion in the planning process and can result in execution shortfalls. Standard procedures must be documented in greater detail in the JOPES to achieve the required commonality. Second, the automated systems for documenting unit characteristics does not easily accommodate the unit tailoring that has been required to fulfill the supported CINC's requirements in recent operations. The nature of these operations frequently necessitated deployment of parts of units when the entire unit capability was not required by the CINC. These "derivative units" are not standard in design, and the automated system does not provide sufficient data elements to adequately portray the derivative unit's size, equipment configuration, or mission essential tasks. This shortfall creates difficulty not only for those commands involved in the derivative unit's movement, but also for the force provider who must ensure the unit's readiness to perform the mission it will be assigned.

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QUESTION #27

JOINT OPERATIONAL PLANNING AND EXECUTION SYSTEM

The Chairman's review will undoubtedly identify other enhancements which are necessary. Although the JOPES provides an effective foundation for planning and mission execution, the system is complex and does require detailed analysis. Whatever improvements the Chairman's Study Group concludes are required, they must be implemented under the auspices of the Joint Staff. The planning and execution system is a joint system and any attempt to improve the process must include all the Services under the leadership of the Joint Staff.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
MILITARY READINESS SUBCOMMITTEE
FORCE READINESS
19 MARCH 1996

QUESTION # 28

READINESS CHALLENGES

Mr. Bateman. From your perspective, what are your more serious readiness challenges now and in the future?

Major General Shinseki. The Army needs the supplemental funding and reprogramming actions that have been submitted to fund Operation Joint Endeavor in Bosnia. If this funding is not received in a timely manner, operation and maintenance readiness activities will be curtailed in the Fourth Quarter, with degradation of unit readiness that will carryover into the First and Second Quarters of Fiscal Year 1997.

The greatest challenge to Army readiness in the future is the mid- and long-term impact of an increased operational pace and decreased modernization funding. Requirements in this uncertain world have increased while personnel authorizations and financial resources continue to decline. By failing to modernize and upgrade our equipment, we put tomorrow's soldiers at risk. Although more difficult to assess or quantify, loss of future leadership is also a risk. Today, hundreds of young soldiers, who will be platoon sergeants in 2010, are training hard and learning their trade. While retention and quality goals are being met, excessive time away from home is often cited by good soldiers as the reason for their decision to leave the military. It is common to find soldiers in today's Army who have been away from home for 140, 160, or 190 days. The Army must have soldiers in sufficient numbers to meet our commitments without placing excessive burdens on soldiers. It is crucial that we maintain balanced capabilities. Quality soldiers are the foundation of Army capabilities. The country owes its soldiers a quality of life sufficient to raise their families successfully and with dignity.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON MILITARY READINESS
FORCE READINESS
19 MARCH 1996

QUESTION #29a, b

MEASURING READINESS

Mr. Bateman. Last year, the subcommittee was informed that the Army had developed and partially implemented the Army Readiness Management System (ARMS), which allows unit readiness status to be projected for up to two years. What is the status of the ARMS program?

Major General Shinseki. The Army Readiness Management System (ARMS) is an Executive Information System (EIS) that supports the total Army with readiness information from the Status of Resources and Training System (SORTS) and the Status Projection System (SPS). It provides the Chief of Staff of the Army/Vice Chief of Staff of the Army, staff principals, and action officers with information about the historical, current, and future readiness of Army units. The information spans the readiness functional areas of equipment on-hand, equipment serviceability, personnel and training. This information varies in level of aggregation from major combat units to battalions.

Mr. Bateman. Are you able to now project/predict unit readiness status for two years?

Major General Shinseki. Status Projection System projects the readiness of major combat units (divisions, separate brigades and regiments) for two years. The Status Projection System uses the results of personnel, logistics, maintenance, and training models by accessing the results of the models by applying guidelines from Army Regulation 220-1, Unit Status Reporting, and other policy guidance. The Status Projection System does not change any of the functional area data. However, it shows the combined effects of the functional policy decisions on unit readiness status. Army Readiness Management System/Status Projection System has been an integral component of the Chief of Staff of the Army Monthly Readiness Reviews for the last three years. The Army continues to work to improve the robustness of the prediction methodology.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON MILITARY READINESS
FORCE READINESS
19 MARCH 1996

QUESTION #30

OPTEMPO AND PERSTEMPO

Mr. Bateman. What is the impact of high personnel tempo (PERSTEMPO) on personnel and training? Please comment on the affect high personnel tempo has on quality of life, morale, retention, training in the core competencies, and the granting of any training waivers.

Major General Shinseki. There is anecdotal evidence that some units and individuals are more heavily affected due to deployments. However, overall quality of life and morale remains high. Additionally, the Army has collected Military Occupational Specialty (MOS) related PERSTEMPO data for seven months now and all analysis results indicate that retention has not been directly affected by PERSTEMPO. Specifically, we have examined the top 16 MOS that have appeared on four of the last six month's SKILLTEMPO reports and reviewed retention data for the past three years. All indicators show that even in our deployed units, current retention rates are consistent with past retention rates. However, recent increases in deployments, coupled with slowing promotions, early release programs, and leadership climate, may cause future retention problems.

Also, high personnel tempo does indeed directly affect both individual and collective training. This effect is negative when individuals and units are asked to serve outside of their core competencies for extended periods of time. Additionally, the effects are magnified when key leadership (those responsible for planning, scheduling and assessing training) and other fillers (in low density MOS) are pulled out of their respective units to support various deployments. Furthermore, there have been no training waivers granted to date.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON MILITARY READINESS
FORCE READINESS
19 MARCH 1996

QUESTION #31

OPERATING TEMPO (OPTEMPO) AND PERSONNEL TEMPO (PERSTEMPO)

Mr. Bateman. Do you feel that current readiness reporting guidelines recognize the importance of high operational tempo and personnel tempo? If so, what are the current standards against which current conditions are measured?

Major General Shinseki. The Army does not directly measure operational tempo (OPTEMPO) and personnel tempo (PERSTEMPO) within its readiness reporting system, however, there are mechanisms to give insight into this area. One area that provides insight into OPTEMPO and PERSTEMPO is the category of personnel availability. Commanders are also able to highlight OPTEMPO and PERSTEMPO concerns within their commanders' comments of the unit's monthly readiness reports. There is no standard against which current conditions are measured but the Army is a part of a Joint Working Group chartered to refine PERSTEMPO to assess the impact of increased operations on training, retention and readiness.

VICE ADMIRAL THOMAS J. LOPEZ
U.S. NAVY

RESPONSES TO
MEMBERS' QUESTIONS
FOR THE

MARCH 19, 1996
HEARING RECORD
ON

FORCE READINESS

HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
HEARING ON READINESS
QUESTION FOR THE RECORD
QUESTION NUMBER 1

QUESTION: Admiral Lopez:

With the continued high level of operations, will you be able to accomplish all of your previously scheduled training objectives this year?

ANSWER: The current level of operations will support the completion of the training objectives planned for this year.

HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
HEARING ON READINESS
QUESTION FOR THE RECORD
QUESTION NUMBER 2

QUESTION: Admiral Lopez:

There have been concerns expressed that the pace of operations, coupled with fewer ships fleet-wide is impacting training. Specifically, that there are fewer opportunities to separate training and operational requirements. A further concern expressed is that training is being compressed with ships increasingly having to accomplish the same level of training with fewer non-deployed steaming days. In the context of these concerns, the Navy's FY 97 O&M budget is alarming in that it reflects a projection of forces on a deployed status of 55 days per quarter (the goal is 50.5 days/quarter) and a reduction in non-deployed status of 27 days per quarter, a reduction of two days from the previous goal of 29 days/quarter. How will all training objectives be accomplished in a shorter time? How is the quality of training being impacted?

ANSWER: The planned reduction in steaming days from 29 to 27 days per quarter takes into consideration the new tactical training strategy that we have put in place this year. The new strategy better matches needed time at sea with both Naval and Joint Training requirements. Enhanced deployed OPTEMPO may require reductions in areas other than training. The quality of training is presently high, and we will continually re-evaluate as we execute required deployed OPTEMPO and implement the new tactical training strategy.

HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
HEARING ON READINESS
QUESTION FOR THE RECORD
QUESTION NUMBER 3

QUESTION: Admiral Lopez:

Please explain the Navy's "Tactical Training Strategy?" Was this strategy driven by improvements in training or was it necessitated by increased operational requirements laid upon fewer people and fewer ships which jeopardized the Navy's PERSTEMPO policy? In short, is this new training strategy just a recognition that you can only do less with less?

ANSWER: The Tactical Training Strategy tailors a unit's training to the specific mission they will be performing. This strategy was implemented as a smart business decision. For example, it recognizes the continuing commitment for Counter-Narcotics (C-N) operations, which does not require the full range of battle group mission training requirements. Units conducting C-N operations receive tailored training for the C-N mission. Units deploying with a carrier battle group receive training tailored to operating in a multi-mission environment. By tailoring training to receive the training they will require for the mission they will perform, units will experience improved PERSTEMPO.

HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON: READINESS
19 MARCH 1996
QUESTION FOR THE RECORD
QUESTION NUMBER 4

PERSTEMPO

Chairman Spence: The FY-97 budget request reflects a budget for deployed forces to operate at 50.5 days per quarter, yet you are projecting operating at 55 days. Where will the additional 10 percent increase in operations come from? How will you address PERSTEMPO restrictions that mandate no more than 50.5 days per sailor?

Admiral Lopez: Operations at this level for deployed units are consistent with the last couple of years. Our projection for FY-97 is 55 days per quarter. This increase is to meet expected contingencies. Funding for this increase has been provided in the FY-97 budget.

A higher OPTEMPO of 55 days while deployed does not affect PERSTEMPO. PERSTEMPO is a measure of the number of days out of homeport over a period of time. The goal is 50% of the time in homeport. Days in port overseas do not reduce PERSTEMPO. For deployed units, PERSTEMPO only changes if the deployment is shortened or extended. The CNO's goal of 6 month deployments is being met.

HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON READINESS
19 MARCH 1996
QUESTION FOR THE RECORD
QUESTION NUMBER 5

OPTEMPO AND PERSTEMPO

Rep Bateman: Concerns have been expressed that funding has been insufficient in the recent past to train pilots to be combat proficient in all areas of their aircraft's capabilities, e.g. air-to-air, air-to-ground, etc. The FY 97 budget funds tactical air flying hours to maintain primary mission readiness (PMR) at 88% of requirement -- down 1% from FY 96. Given the sophistication of the systems Navy pilots have to operate, shouldn't funding and flying hours be increasing rather than decreasing? Are you confident that you can maintain air crew proficiency, safety, and all other training requirements with this level of funding?

Admiral Lopez: PMR is defined as those hours required to maintain the average flight crew qualified and current to perform the primary mission of the assigned aircraft. Since FY 91, PMR has been designated at 85% (83% flying hours, 2% simulators) in the Department of the Navy Consolidated Planning and Programming Guidance. Funds for contingencies are normally provided through a supplemental appropriation and not displayed in the budget submission. The Office of the Secretary of Defense (OSD) directed the services to budget for contingency operations in the current FY 97 President's submit. The current FY 97 budget submission includes funds for approximately 39,000 hours in FY 96 and 30,000 hours in FY 97 for contingency operations. It is the reduction in contingency hours that results in an overall decrease of 1% from FY 96 to FY 97. PMR for training and readiness remains at 85% for both FY 96 and FY 97.

HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON READINESS
19 MARCH 1996
QUESTION FOR THE RECORD
QUESTION NUMBER 6

SHIP OVERHAUL BACKLOG

Chairman Bateman: Admiral Lopez, your FY-97 budget request reflects a backlog of 2 ships in your ship overhaul program. This is the first time in the past several years that you have shown a backlog in ship overhauls. What impact will this backlog have on your scheduled operations? What efforts will have to be made to extend the use of the two ships that will not be overhauled on time?

Admiral Lopez: When maintenance deferrals are necessary because of fiscal constraints, availabilities are selected for deferral which are expected to have minimal impact on readiness. Fleet commanders select the specific hulls to be backlogged based on the material condition of each ship and the budgeted cost and content of its planned work package, as balanced against the size of the financial shortfall.

The current overhaul backlog consists of two ships which were selected by the Fleets because they are known to be in good material condition. While unfunding these overhauls will not impact operational capability, some combat systems upgrades and hull girder strengthening modifications will be delayed.

HOUSE COMMITTEE ON NATIONAL SECURITY
READINESS SUBCOMMITTEE HEARING
19 MARCH 1996
QUESTION FOR THE RECORD
QUESTION NUMBER 7 (PART 1)

CONTINGENCY OPERATIONS FUNDING

Question: Concerning your recent increase of activities in the Far East, i.e., Taiwan, will there be additional unprogrammed costs associated with these operations?

Admiral Lopez: At this time it appears that there will be no significant unprogrammed costs resulting from unplanned activities in the Far East.

HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON READINESS
19 MARCH 1996
QUESTION FOR THE RECORD
QUESTION NUMBER 8

AIRCRAFT SAFETY

Rep Bateman: The Navy has experienced several major aircraft accidents recently resulting in loss of several aircrew members and aircraft. In fact, these accidents necessitated a fleet-wide standdown of F-14 aircraft and a complete standdown in the Pacific command. It is also our understanding that last year you sent a special investigator to Pacific Command to assess flight safety procedures. What have been the results of these standdowns? Have you made any preliminary judgments as to why you are experiencing so many aircraft accidents lately? Do you feel there is a correlation between the amounts and types of training you are accomplishing and/or the age and condition of the aircraft and the increase in accidents?

Admiral Lopez: The Navy in FY96 through March has 12 Class A Flight Mishaps and a rate of 2.01 (number per 100,000 Flight Hours) compared to 13 mishaps at this time last year and a 2.38 rate. Last year was the Navy's third best year ever with a total of 22 mishaps and a 1.91 mishap rate (FY 95 was 2nd best year for combined USN/USMC).

Extensive analysis of historical mishap trends shows that no particular month or quarter has consistently high mishap rates. The rates tend to oscillate with occasional high-rate periods and low-rate periods, nor is there a correlation to aircraft age.

To further reduce the flight mishap rates we conduct aviation safety surveys of aviation commands and are currently implementing Operational Risk Management (ORM) training. The safety surveys are a pro-active approach designed to provide the command a measure of effectiveness of their safety program and to update their program with any new techniques offered by the Safety Center. ORM, the most recent tool to enhance operational readiness, allows the command to focus on changes from the normal operating environment, assess the hazards associated with those changes and implement appropriate control procedures.

Specifically for the Pacific region, the Naval Safety Center recently conducted safety surveys, ORM training and maintenance malpractice (MM) lectures to 24 organizational units in Japan, Hawaii and the next deploying carrier air wing.

HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
HEARING ON READINESS
QUESTION FOR THE RECORD
QUESTION NUMBER 2

QUESTION: Admiral Lopez:

It is my understanding that the Navy is, or has already, developed a system called the Predictive Measures of Readiness System that is designed to provide a comprehensive readiness assessment system to assess overall readiness by examining seven broad measurement areas. Would you please explain the current status of this system and include any results thus far.

ANSWER: Our Predictive Measures of Readiness have matured through this past year. They form the basis of a monthly readiness review which the CNO receives describing readiness across all platforms for the entire Navy, deployed, and non-deployed. Although our ability to truly predict readiness is one of continuous improvement, these readiness measures or indicators provide significant understanding of our Navy's current readiness status, and have helped highlight issues in all resource areas where potential readiness concerns may be developing. In these cases, corrective measures were enabled, resulting in either improved current readiness or precluding degraded readiness in the future.

HOUSE COMMITTEE ON NATIONAL SECURITY
READINESS SUBCOMMITTEE HEARING
-19 MARCH 1996
QUESTION FOR THE RECORD
QUESTION NUMBER 10

FUNDING FOR BOSNIA OPERATIONS

Question: We have heard rumors that the supplemental and reprogramming request needed to cover FY-96 costs for Bosnia is underfunded. If this is true, what will be the impact on your FY-96 program? Will there be a reduction in flying hours, a reduction in programmed maintenance including scheduled ship repairs, and/or a reduction on the amount of scheduled training?

Admiral Lopez: At this time the proposed supplemental and reprogramming requests needed to cover FY-96 costs for Bosnia reflect the latest estimates for the Department of the Navy. However, in the event these actions are not approved as currently submitted or additional, unforeseen, requirements materialize, the Department would be forced to apply reductions primarily to its ship depot maintenance and maintenance of real property accounts.

HOUSE COMMITTEE ON NATIONAL SECURITY
READINESS SUBCOMMITTEE HEARING
19 MARCH 1996
QUESTION FOR THE RECORD
QUESTION NUMBER 11

FUNDING FOR BOSNIA OPERATIONS

Question: The FY 96 Defense Authorization Act contains a number of provisions dealing with civilian personnel. In particular, section 1031 prohibits the use of FTE personnel ceilings in the management of the Department of Defenses's civilian workforce. Section 1032 requires the Secretary of Defense to convert not less than 10,000 military positions to performance by civilian employees of the Department of Defense over a two year period. How are these two provisions being implemented within your respective services?

Admiral Lopez:

Prohibition of FTE Personnel Ceilings -- There has been no impact and we do not really expect any impact. This is because full-time equivalent ceilings in the Navy Department are based on budgeted civilian workyears. As such FTE levels represent funded workload levels and have never dictated civilian reductions below requirements determined through the regular budget process, or as necessary to achieve force structure reductions resulting from base realignments and closures.

Conversion of 10,000 military positions to civilian -- The Navy is achieving civilian substitution with the civilianization of approximately 800 military maintenance position at the Intermediate Maintenance Facility, Pearl Harbor. Additional conversion opportunities are expected at non-Fleet concentration areas where there are as many as 26,000 military billets performing functions which may be suitable for civilian substitution, thereby releasing military billets for the implementation of readiness initiatives such as the CNO's Homebasing plan.

HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
HEARING ON READINESS
QUESTION FOR THE RECORD
QUESTION NUMBER 12

QUESTION: For all panel members:

Over the past couple of years, the services and DOD have been developing comprehensive systems to measure readiness indicators, both from the individual service readiness perspective and from a joint readiness perspective. Last year we were informed that DOD was creating a "readiness baseline of indicators" to assess the current and future state of readiness.

* Do you feel that we are getting accurate and rapid data that adequately measures force readiness?
* What improvements have you seen in the last year?
* Does more need to be done, or are we there?
* What is the status of efforts to identify and measure readiness indicators with predictive value?

ANSWER: Yes, we are receiving accurate data in a very timely manner. As you know, the Navy reports unit readiness on a by-event basis in the Status of Resources and Training System (SORTS). Whenever an event occurs which affects a unit's readiness, it is reported within the required time limits, often in a matter of hours.

Improvements over the last year are most notably seen in the maturing process of our understanding of readiness. The greater breadth of indicators which now help describe readiness, and our ability to use to use these indicators to focus management techniques to specific concerns, is at the highest level ever experienced.

SORTS currently provides us a significant insight into unit readiness, although some improvements to that system are also being addressed. An example would be greater standardization among the services. This is an on-going effort being coordinated by the Joint Staff.

The Predictive Measures of Readiness (PMOR) looks at a wide range of metrics which piece together the readiness story for the Navy. This system has been in use for approximately 18 months, and has proven exceptionally valuable in understanding current readiness. The actual predictive nature of these measures is continuously under evaluation. However, PMOR has proven exceptionally valuable in identifying current and historical trends which highlight areas of concern. In this sense, although a true prediction may not be possible, a very clear picture is drawn which allows us to conduct further investigation and apply management techniques early, precluding future readiness degradation.

HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
HEARING ON READINESS
QUESTION FOR THE RECORD
QUESTION NUMBER 13

QUESTION: For all panel members:

In your opinion, how effective has the Senior Readiness Oversight Council been since its inception last year? What significant contributions has the Council made in dealing with readiness issues? What are some of the tangible items that have emerged from this process?

ANSWER: The Senior Readiness Oversight Council has been exceptionally effective in providing senior leadership an insight into current readiness and highlighting the broad spectrum of operations conducted by all the services.

The Council has contributed its experience and management perspective to all of the services which helps to focus areas for which they have the greatest concern.

The tangible result of the Council's activities come from the frank discussions on topical issues. This has increased understanding across the services via a joint perspective, which contributes to the successes of the individual services as well as the Department of Defense as a whole.

HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
HEARING ON READINESS
QUESTION FOR THE RECORD
QUESTION NUMBER 14

QUESTION: For all panel members:

Since the inception of the Joint Monthly Readiness Review (JMRR) process and the Senior Readiness Oversight Council (SROC) a little more than a year ago, how have these reviews improved DOD's ability to assess readiness? What trends have been identified as a result of these reviews?

ANSWER: The JMRR and the SROC processes have provided a more focused view of the DOD's ability to meet the National Military Strategy than was previously available. The process of assessing the services' abilities to provide forces to the supported CINCs has matured to a level which now identifies specific concerns and provides visibility in the corrective techniques needed. The full range of capabilities, both above and below the line, are now assessed in a realistic scenario (four times per year), which focuses attention on problems and their relative severity. With this understanding, the appropriate priority can be assigned to those concerns and corrective techniques.

With the development of the SROC and the JMRR we have identified trends in each of the Status of Resources and Training (SORTS) areas, which include Personnel, Supply, Equipment, and Training. These trends are examined for all platforms overall, and for deployed and non-deployed units.

HOUSE NATIONAL SECURITY COMMITTEE,
READINESS
SUBCOMMITTEE HEARING ON READINESS
19 MARCH 1996
QUESTION FOR THE RECORD
QUESTION NUMBER 15

-Question for the record, House National Security Committee, Readiness Subcommittee Hearing on Readiness

READINESS FUNDING

Question for all panel members: It is widely reported that there is a competition between near-term readiness and modernization -- future readiness, with force structure as the potential loser. At the same time, there is a decided tip in the resourcing the tooth to tail ration -- with more resources going to fund defense support infrastructure than to combat capability. Please describe efforts that you are taking to ensure that infrastructure costs are reduced so that savings can be channeled into near-term and future readiness. How can this process be facilitated?

Answer: With the help of the Congress, we have taken and continue to take actions to align our infrastructure to the proper size and composition to best support our operating forces. The resulting savings are being used to support readiness. Some of the most notable efforts are described below.

Base Realignment and Closure (BRAC). Force structure drawdowns reduced the shore infrastructure requirements. The four rounds of base closures provided the opportunity to eliminate excess facility capacity. The annual savings will amount to $2.6 billion by FY01.

Consolidation/Restructuring of DOD laboratories and Test and Evaluation (T&E) Centers. An ongoing study may identify an opportunity to further reduce the infrastructure currently supporting research and development.

Outsourcing and competition. We have achieved reductions in infrastructure by competing in-house capability with commercial sources. This competition has been a catalyst to develop more efficient operations even in those cases when we have determined that contracting is not more cost effective. Efforts to identify the savings potential of outsourcing are continuing. Legislative restrictions on certain types of outsourcing and the outsourcing process have limited further

infrastructure reductions. We are pursuing legislative relief in the following areas:

- USC Sec 2465 prevents outsourcing of security and fire fighting functions. As an minimum, relief is needed for bases closing due to BRAC actions.
- USC Sec 2466 prevents performing less than 60 percent of depot maintenance in public shipyards.
- Removing other constraints in Sections 2461 through 2469 would allow additional areas to be outsourced and sooner realization of savings.

Privatization. The Navy continues to examine privatization as a way to provide functions more efficiently. For example, public/private ventures for housing will lower the price of an acceptable Quality of Life for service members and their families.

Acquisition reform. We are pursuing efforts to reduce the cost of purchasing products and services. This effort could be facilitated by raising the threshold of the applicability of the Davis-Bacon Act and Service Contract Act restrictions.

Efforts to improve logistics management are expected to decrease the associated infrastructure. Better control of material delivery schedules will allow for decreased inventory levels, which will result in lower costs.

Reductions in the costs of providing expeditionary capability. As we recapitalize and modernize our force structure, the Navy has sought to reduce operating and support costs. Examples of specific efforts include: retiring those aircraft that were most expensive to operate (A-6s), reducing the size and mix of carrier air wings (CVW) through USN/USMC tactical aircraft integration and reducing the overall inventory pipeline of aggressor squadron, research and development aircraft, and older aircraft. Incorporating more multi-mission platforms and siting like aircraft in the same area will further reduce support costs.

Regional Maintenance. By consolidating maintenance efforts and by reducing duplication of capability, maintenance infrastructure can be reduced. We are also reviewing facility management to identify opportunities for consolidation.

Training. Increased use of training technologies to reduce time to train and move portions of training out of the traditional schoolhouse into the fleet.

HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
HEARING ON READINESS
QUESTION FOR THE RECORD
QUESTION NUMBER 16

QUESTION: For all panel members:

The deployment of personnel in support of contingency operations has increased over the last few years. This increased pace of operations has fallen most heavily on a small number of critical units with unique specialties, including special forces, electronic warfare, and military police. What other types of forces have been heavily impacted by contingency operations? How has the readiness of these forces been affected over the last few years? Would you please identify key indicators that would provide the best measures of deployments' impact on personnel readiness? What are the advantages and disadvantages of changing the force structure to increase the number of critical units with unique capabilities, assuming no increase in total force structure?

ANSWER: Contingency operations actually have a broad impact on the Naval Battle Groups and Amphibious Ready Groups as well as specialty units. Hence the increased operating tempo of the front line units. (56% underway and 27% deployed). An example of specialty forces typically impacted by recent contingency operations is our Naval Mobile Construction Battalions (Seabees) who have provided the supporting infrastructure for the operating functions necessary to execute these missions. This is because they are the first to respond to the contingency and generally remain after other units have redeployed. Although their operations have been significant, their obvious successes testify to their readiness when called. These forces remain ready should they be required in the future.

Personnel readiness remains high. A deployment's impact on personnel readiness is most notably seen in unit proficiency which is typically measured by Status of Resources and Training System (SORTS) and the specific resource area of Training. In general, Training remains high during deployments, as a unit performs a broad spectrum of functions which continue to hone skills developed during the Inter-Deployment Training Cycle. In some cases, contingency operations have precluded the conduct of some unit skills. However, these have been very limited in scope, and have had no impact on performing the assigned mission. Again, Training has remained high, which directly correlates with personnel readiness.

The disadvantage of changing force structure to increase the number of critical units with unique capabilities is the possibility that force structure becomes over-specialized: that is, we would not maintain enough platforms with a broad spectrum of capabilities to meet mission requirements.

HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
HEARING ON READINESS
QUESTION FOR THE RECORD
QUESTION NUMBER 16 (CONT)

Our readiness and force structure assessments receive a number of inputs, including the Joint Requirements Oversight Council (JROC), wargaming, and CINC inputs to identify emergent requirements for force structure change. As we identify new requirements, we first look to existing force structure before considering changing or adding unique capabilities.

HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON: READINESS
QUESTION FOR THE RECORD
QUESTION NUMBER 17

Chairman: You have been experiencing an increase in the pace of operations for the past several years. If this pace continues, what needs to be done to ensure force readiness in the future? What plans are there in the FY-97 budget request, or in future years, to recognize the increased usage of personnel and equipment?

Admiral Lopez: Recapitalization of our forces will be a key factor in ensuring our future readiness. The basis of our recapitalization resides in our ship, aircraft and submarine procurement programs. The details of the FY-97 budget for these recapitalization programs are as discussed in my Statement for the Record.

HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
19 MARCH 1996
QUESTION FOR THE RECORD
QUESTION NUMBER 18

IMPACT OF CONTINGENCY OPERATIONS

Question: What impact do operations in Bosnia have on the Services' ability to undertake another major mission simultaneously? Please provide responses by Service, and comment on the availability of combat and support elements needed for a second operation.

Vice Admiral Lopez: The Navy is fully ready to execute another major mission simultaneously with operations in Bosnia. The inherent flexibility of our forward deployed naval forces enables the Navy to smoothly make the transition from today's posture to a wartime or crisis management footing. This was most visibly demonstrated last month as the National Command Authorities repositioned the NIMITZ Carrier Battlegroup from the Arabian Gulf to join the INDEPENDENCE Carrier Battlegroup for Western Pacific operations, in concert with a move of the GEORGE WASHINGTON Carrier Battlegroup from the Mediterranean Sea to the Arabian Gulf. The Navy provided a visible, capable, and sustainable strike force in desired areas, while at-sea operations by naval forces remaining in the Mediterranean Sea provided unabated support to IFOR assets ashore.

LT. GEN. ARTHUR C. BLADES
U.S. MARINE CORPS

RESPONSES TO
MEMBERS' QUESTIONS
FOR THE

MARCH 19, 1996
HEARING RECORD
ON

FORCE READINESS

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # 1

Funding for Bosnia Operations

Question: We have heard rumors that the supplemental and reprogramming request needed to cover FY-96 costs for Bosnia is underfunded. If this is true, what will be the impact on hours, a reduction in programmed maintenance including scheduled ship repairs, and /or a reduction on the amount of scheduled training?

General Blades: Only $8.8M of the projected $2.8B contingency cost for FY96 is for Marine Forces. This cost includes Marine Corps support to IFOR, Guantanamo Bay, and Haiti. These costs are associated with commitments in excess of our normal forward deployed units which routinely absorb the costs of short term contingencies from their O&M accounts.

If reimbursement for these costs is made, there should be no degradation upon flight hours or scheduled ground training.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # 2

Funding for Bosnia Operations

Question: The FY 96 Defense Authorization Act contains a number of provisions dealing with civilian personnel. In particular, section 1031 prohibits the use of FTE personnel ceilings in the management of the Department of Defense's civilian workforce. Section 1032 requires the Secretary of Defense to convert not less than 10,000 military positions to performance by civilian employees of the Department of Defense over a two year period. How are these two provisions being implemented within your respective services?

General Blades: Regarding section 1031, the Marine Corps is currently executing the FY1996 civilian personnel plan in accordance with the budget plan for FY1996. The language in section 1031 provides the Marine Corps with the flexibility to plan, budget and execute relative to workload requirements. We ask the Congress to continue this language in the subsequent years.

Regarding section 1032, the Marine Corps is able to identify 667 military positions that can be converted to comply with this provision. However, conversion of military billets to civilian billets does not forgo the military billet costs and increases civilian personnel costs to the O&M account. In order to comply with this unfunded mandate, offsets of approximately $30 million from within current Marine Corps programs will be required. Because of the Marine Corps' lean funding posture and delicate fiscal balance, mandating the Corps to absorb/offset an amount of this magnitude will have a significant negative impact on Marine Corps readiness.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # 3

Readiness Indicators

Question: Over the past couple of years, the services and DOD have been developing comprehensive systems to measure readiness indicators, both from the individual service readiness perspective and from a joint readiness perspective. Last year we were informed that DOD was creating a "readiness baseline of indicators" to assess the current and future state of readiness.

- Do you now feel that we are getting accurate and rapid data that adequately measures force readiness?
- What improvements have you seen in the last year?
- Does more need to be done, or are we there?
- What is the status of efforts to identify and measure readiness indicators with predicative value?
- What indicators, besides those contained in SORTS, are particularly relevant for assessing the readiness of forces that are used frequently in contingency operations?

General Blades: The Marine Corps uses SORTS as its primary indicator and we feel it gives an accurate/timely assessment of a unit's readiness by the commander. It provides a "snap shot" in time. We cross check SORTS against other reports/data; Aircraft Material Readiness Report (AMRR), Marine Automated Readiness Evaluation System (MARES) and the Manpower Total Force System.

No major improvements have been seen in the last year. Numerous studies and audits have been conducted in the past which provide direction for future improvements. We are working with OSD and the Joint Staff to further the definition and development of additional readiness baseline indicators to improve readiness reporting. In the interim we are improving our SORTS reporting and its content. This is being done through DISA with the development of a Marine Corps unique automated message formatting processes for SORTS.

We are trying to do more, particularly within the Marine Corps Training and Exercise Employment Plan (MCTEEP), by incorporating a predictive readiness module. This will evaluate unit readiness based on information resident in the database. It will correlate unit participation in an event with corresponding effects on personnel and equipment readiness. Additionally, it will facilitate assessing the readiness of forces that are used frequently in contingency operations.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # 4

Readiness Indicators

Question: In your opinion, how effective has the Senior Readiness Oversight Council been since its inception last year? What significant contributions has the Council made in dealing with readiness issues? What are some of the tangible items that have emerged from this process?

General Blades: The Senior Readiness Oversight Council has been very effective. The Senior Readiness Oversight Council provides an effective forum for the Vice Chairman and Service Chiefs to present their assessment of force readiness directly to the Deputy Secretary of Defense and other OSD members.

The presentation of current/future readiness concerns by the SROC to the Deputy Secretary of Defense and key OSD staff helps focus readiness policy and priorities. Significant contributions of the SROC have been to highlight the potential impact on readiness of not being reimbursed for our unprogrammed costs of contingency operations and the impact on executing guidance from the Defense Planning Guidance while executing Operation Joint Endeavor with a notional force. These two tangible items, were discussed openly and effectively analyzed.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # 5

Readiness Indicators

Question: Since the inception of the Joint Monthly Readiness Review (JMRR) process and the Senior Readiness Oversight Council (SROC) a little more than a year ago, how have these reviews improved DoD's ability to assess readiness? What trends have been identified as a result of these reviews?

General Blades: The JMRR and the SROC processes have improved our ability to assess readiness from the joint perspective. These processes provide the platforms to review current force readiness weighed against current commitments. This assessment is then placed next to the National Military Strategy for an assessment by DoD leadership. This assessment is not just based upon Services' input, but also those internal looks by the CINC's and combat support agencies. There have been no significant trends identified for the Marine Corps as a result of the JMRR/SROC process.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # 6

Readiness Funding

Question: It is widely reported that there is a competition between near-term readiness and modernization -- future readiness, with force structure as the potential loser. At the same time, there is a decided tip in the resourcing the tooth to tail ratio -- with more resources going to fund defense support infrastructure than to combat capability. Please describe efforts that you are taking to ensure that infrastructure costs are reduced so that savings can be channeled into near-term and future readiness. How can this process be facilitated?

General Blades: DoD efforts toward reducing infrastructure costs consist primarily of BRAC and outsourcing.

The Department's BRAC process has been a major tool for reducing the domestic base structure. Gross savings are expected to exceed the costs to close facilities beginning in FY 1996. This budget reflects the alignment of BRAC savings anticipated from FY 1996 through FY 2001 to fund $17.8 billion of high priority defense programs.

Regarding outsourcing, the Department's goal is to maximize outsourcing to the extent possible without adversely affecting readiness. We solicit your support for outsourcing initiatives.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # -- 7

OPTEMPO and PERSTEMPO

Question: The deployment of personnel in support of contingency operations has increased over the last few years. This increased pace of operations has fallen most heavily on a small number of critical units with unique specialties, including special forces, electronic warfare, and military police. What other types of forces have been heavily impacted by contingency operations? How has the readiness of these forces been affected over the last few years? Would you please identify key indicators that would provide the best measures of deployments' impact on personnel readiness? What are the advantages and disadvantages of changing the force structure to increase the number of critical units with unique capabilities, assuming no increase in total force structure?

General Blades: Increased numbers of contingency operations have increased the deployment rates of most Marines in the FMF. In particular, EA-6B and F/A-18 crews with associated service personnel and infantry have experienced above normal deployment rates over the past two years, which is to be expected. These types of units are the "tip of the spear". However, as a result of careful personnel management, we have no indications that readiness has been adversely impacted by the increased DEPTEMPO.

In almost two years of intense review, the J-1 PERSTEMPO Working Group, with extensive Marine Corps participation has not identified any indicators which are reliably linked to the impact of deployment on personnel readiness.

The Marine Corps' force structure is designed to meet its wartime, two MRC requirement. We see no advantage, and much danger, in optimizing our force structure to meet the constantly shifting demands of "peacetime" OOTW/contingency situations. The capability to fight and win must remain at the forefront of our future.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # 8

OPTEMPO and PERSTEMPO

Question: You have been experiencing an increase in the pace of operations for the past several years. If this pace continues, what needs to be done to ensure force readiness in the future? What plans are there in the FY-97 budget request, or in future years, to recognize the increased usage of personnel and equipment?

General Blades: The high use and age of our equipment and the investment funding to replace it is a concern. Our current level of funding is adequate to ensure a capable and ready Marine Corps today, however, this comes at the expense of investments needed for the next century - investments which are necessary in order to meet the complex security challenges on the horizon.

The pace of operations has been increasing since FY 1991, yet investment has decreased by 50% over the last two decades. As I stated, today we are maintaining readiness at the expense of modernization; however, we will begin to reverse this downward trend in modernization in FY 1999.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # 9

Impact of Contingency Operations

Questions: What impact do operations in Bosnia have on the services' ability to undertake another major mission simultaneously? Please provide responses by services, and comment on the availability of combat and support elements needed for a second operation.

General Blades: As reflected in our most current JMRR assessment, Operations in Bosnia do not impact on the Marine Corps' ability to undertake another major mission simultaneously. Our combat and support requirements are available for the second operation with minimum augmentation or reinforcement from our Reserve establishment.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # 44

Minimum Requirements

Question: The committee received testimony last year that within the Bottom-UP Review validated endstrength of 174,000 active duty Marines, the Marine Corps has not received sufficient resources to fund the minimum essential requirements of that force. Is this statement still valid in the context of the FY1997 budget request? If so, where are the specific shortfalls in these minimum essential requirements?

General Blades: As the Secretary has stated, the DoD budget strikes "a prudent balance between immediate military needs, such as high readiness and troop morale, and long-term investments, such as basic scientific research and the modernization of weapons and equipment." The Marine Corps budget funds readiness today - a Marine Corps capable of meeting today's burgeoning operational requirements. To the extent we can pull forward other readiness, modernization and infrastructure investments, we free up room for essential modernization in FY 1998 and beyond, in order to build the Marine Corps for tomorrow and the day after.

Starting in FY 1999, we will begin to reverse this downward trend in Marine Corps modernization - a trend which absolutely must be reversed in order to ensure we continue to remain the Nation's expeditionary force-in-readiness in the next century.

In keeping with the Secretary's goal to begin a modernization "ramp up", our modernization requirements are constructed upon four of the Secretary's five basic objectives: To continue "leap-ahead" technology; to expand cost effective upgrades of existing systems; to continue enhancements to power projection capabilities; and, to ensure battlefield dominance. Specific programs which will ensure we achieve the Secretary's objectives are as follows:

In order to continue "leap-ahead" technology, we must accelerate the development of highly sophisticated new warfighting capabilities such as:

MV-22 (increases FY97 procurement from 4 aircraft to 6, with FY98 long lead from 7 aircraft to 12.)	$ 302.0M
AAAV	20.0

Commandant's Warfighting Lab	40.0
Telecommunications Upgrades	18.8
Non-lethals	3.0
Bio-Chem Defense unit	3.0

We will expand cost effective upgrades of the following existing systems:

AV-8B	$ 56.0M
Medium Tactical Vehicle Reman(MTVR)	3.0
LW 155 Howitzer	4.0
AN/TPQ-36 Radar Upgrades	3.8
Aviation simulators	60.0
Mobility enhancements	28.3

The following programs will ensure we continue enhancements to power projection capabilities:

MPF(E)	$ 250.0M
F/A-18D	255.0
KC-130J	196.0
CH-53E (NGRE)	64.0

And lastly, the following programs are required in order to ensure continued battlefield dominance:

Javelin	$ 20.0M
JTF Headquarters	1.7
Training Devices	58.2
Combat Operations Centers	6.0
Ammunition	98.0
Intelligence Upgrades	17.3
Wide-area mine clearing	2.5
Other miscellaneous equipment	9.8

Other readiness and infrastructure items which can be pulled forward are as follows:

Initial Issue	$ 35.7M
Ammo Rework	5.0
Maintenance of Real Property	193.0
Recruiting and Advertising	4.7
Base Operations	40.0
JTF Headquarters	5.0
Riverine Program	3.0
Combat Operations Center	5.0
Commandant's Warfighting Lab	8.0
Corrosion Control	10.0
Personnel Support Equipment	26.0

Off Duty Education	4.5
MWR Support	3.4
Child Care	3.5
Military Construction (Active)	97.4
Military Construction (Reserve)	23.1
Family Housing Improvements	6.0
Family Housing New Construction	72.0
Reserve O&M Support	7.5

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # 45

Funding Levels

Question: Last year you informed this subcommittee that the level of funding in FY96 was the minimum amount necessary to maintain an operationally effective and ready Marine Corps. You noted that if FY96 funding levels continued in the outyears, the consequences would be a Marine Corps whose ground forces would be short of modernized equipment and a base structure that would continue to deteriorate. You also noted that at current funding levels, you could not guarantee a ready Marine Corps beyond 1997. The FY97 budget request is less than that requested in FY96. Given this funding trend, what is your assessment of the future readiness of the Marine Corps?

General Blades: The main reason our FY 1997 budget request is less than our FY 1996 budget is because of the generous additions Congress made to our FY 1996 request. These increases have contributed greatly to our ability to fund all readiness requirements in this FY 1997 budget request. We have fully funded 216,000 active and reserve Marines and all programs which directly affect near-term readiness such as education, and training exercises for our operating forces, and depot maintenance. However, topline constraints have forced us to continue to defer investment in terms of major aviation and ground equipment, as well as investment in real property maintenance and military construction at our bases and stations. I remain concerned about underfinanced investment. In FY 1999, we will begin to reverse this downward trend in Marine Corps modernization - a trend which absolutely must be reversed in order to ensure we remain the Nation's expeditionary force-in-readiness in the next century.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD
QUESTION # 46

Question: We are concerned about the affect the high pace of operations and associated PERSTEMPO has on military personnel, training, quality of life, retention and other areas. When asked last year if readiness reporting guidelines had been modified to recognize the importance of understanding the affect of high PERSTEMPO on such factors. Your answer was no. Is this still the case? If so, why, given the obvious importance to understanding such impacts?

General Blades: PERSTEMPO rates are, in a sense, the aggregate of DEPTEMPO (the percentage of time in a given annual period that a unit or element of a unit supports operations or training away from its home base or station for a period of greater then ten consecutive days) and OPTEMPO (the level of operations and training over time). Marines deploy, that is our job--what we signed up to do.

We have not modified readiness reporting guidelines to accommodate PERSTEMPO. Currently we are using DEPTEMPO visibility. Independent of the PERSTEMPO issue, the Marine Corps has developed the Marine Corps Training Evaluation and Exercise Plan (MCTEEP), an automated tool used by planners to assist in scheduling unit training and deployments. This tool is fully fielded across the force and allows unit commanders to graphically portray all training events out to 24 months. Unit plans are aggregated via the chain of command, concluding with the Marine Expeditionary Force plan. They are then forwarded electronically to headquarters. MCTEEP provides full force activity in real time. Unit data impact can be selectively chosen or portrayed anytime, permitting more informal discussion and coordination for routine scheduling or crises response. However, it was not developed as a manpower analysis tool. Although MCTEEP offers some promise to assist in tracking unit DEPTEMPO, it will not report individual PERSTEMPO. We have no system in place to track PERSTEMPO, nor do we envision one in the future. A system would be manpower intensive and the required effort would far exceed the results.

The Marine Corps manages individual deployment tempo over the course of a career, from tour to tour, by tracking Accumulated Deployed Time (ADT). ADT represents the individual Marine's total time (in days) deployed while assigned to an FMF unit. ADT is tracked to credit Marines for their accumulated time spent in a deployed status as it affects their availability for permanent change of station to dependent-restricted overseas

assignments. A Marine who has accumulated an adequate amount of deployed time is assigned an Overseas Control Date (OCD). The monitors (personnel assignors) refer to a Marine's OCD to determine who should be next in the queue for assignment to a dependents-restricted overseas tour. The Marines with the oldest OCDs are the ones who will be considered first for this type of assignment.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD

Congressman Everett: Last week, the Commandant of the Marine Corps, General Krulak, said that one of his top priorities if he was given an increased budget this year is tents. Could you expand on this for the committee?

- What type of tent does the Marine Corps need?
- How many tents are the Marine Corps short?
- How quickly do you need them?

General Blades: The Marine Corps needs new infantry shelters for the individual Marine. The infantry shelter is made of lightweight, woodland camouflage material. The shelter is waterproof and windproof. The shelter will weigh less than 5 pounds and will be easily assembled using collapsible aluminum poles. The acquisition objective for the new Infantry Shelter is 65,908.

The new infantry shelter is a replacement for the old Korean version shelter half which is a bulky piece of canvas weighing 4.5 lbs. The old shelter half must be connected to another shelter half along with poles and stakes which puts the total weight at 9 lbs.

Upon approval of the Initial Issue budget request, fielding will start in FY 97.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON FORCE READINESS
19 MARCH 96
QUESTION FOR THE RECORD

Congressman Sisisky: Is the Marine Corps experiencing any degradation in readiness due to the extremely high deployment rate of Amphibious Ready Groups world-wide? Has there been any discernible drop in readiness or retention rate across the service?

General Blades: The Marine Corps is not experiencing any degradation of readiness to the units deploying with Amphibious Ready Groups. These Marine Expeditionary Units are the focal point of readiness, deploying at maximum readiness and funded to sustain that readiness through deployment.

Our seven standing MEU command elements are structured for regular deployments. Their cycle is best characterized as "normal". This is what Marines do, and expect to do. There is no drop in readiness or retention rates in this regard.

LT.GEN. RALPH E. EBERHART
U.S. AIR FORCE

RESPONSES TO
MEMBERS' QUESTIONS
FOR THE

MARCH 19, 1996
HEARING RECORD
ON

FORCE READINESS

INSERT FOR THE RECORD

HOUSE / SENATE	APPROPRIATIONS COMMITTEE	HOUSE / SENATE	ARMED SERVICES COMMITTEE	X	HOUSE / SENATE	OTHER	National Security, Subcommittee on Readi
HEARING DATE	TRANSCRIPT PAGE NO.	LINE NO.		INSERT NO.			
19 Mar 96	HN-14-001		WITNESS:	LT GEN R.E. EBERHART			USAF

Funding for Bosnia Operations

QUESTION: We have heard rumors that the supplemental and reprogramming request needed to cover FY - 96 costs for Bosnia is underfunded. If this is true, what will be the impact on your FY - 96 program? Will there be a reduction in flying hours, a reduction in programmed maintenance including scheduled ship repairs, and/or a reduction on the amount of scheduled training?

ANSWER: If approved, the supplemental and reprogramming requests currently being worked should fully fund estimated Air Force costs ($323 million) for Bosnia operations.

INSERT FOR THE RECORD

HOUSE / SENATE	APPROPRIATIONS COMMITTEE	X HOUSE / SENATE	ARMED SERVICES COMMITTEE	HOUSE / SENATE	~~OTHER~~ WITNESS: LT GEN. R. E. EBERHART
HEARING DATE: 19 Mar 96	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO.: HN-14-002		US Air Force

CIVILIAN PERSONNEL

UNCLASSIFIED

QUESTION: The FY96 Defense Authorization Act contains a number of provisions dealing with civilian personnel. In particular, section 1031 prohibits the use of FTE personnel ceilings in the management of the Department of Defense's civilian workforce. Section 1032 requires the Secretary of Defense to convert not less than 10,000 military positions to performance by civilian employees of the Department of Defense over a two year period. How are these two provisions being implemented within your respective services?

ANSWER: The Air Force manages civilian employment levels based on funded workload. Although Air Force civilian requirements are programmed in terms of FTEs, those FTEs represent an aggregate target for civilian reductions. In the year of execution, the Air Force targets are flexible and can be realigned to accommodate changes in funded workload.

Section 1031 states that reductions in FTEs may only be made as a result of reductions in funding, and that the Department will employ personnel appropriate to carry out funded workload. The Air Force will comply with this direction and meet future reduction targets established by OSD through a variety of means, including streamlining of administrative and support functions, outsourcing those functions performed more economically by private contractors, and base closures and realignments.

OSD staff has tentatively allotted a 3,000 conversion target for the Air Force. Through prior budgeting actions, the Air Force has programmed 1,000 conversions in FY96. For FY97, an additional 800 have been programmed. Functions converted are all in support areas such as base infrastructure, communications and computers, instructors, scientists, and training aircraft maintenance. Air Force will continue to seek other opportunities to convert military to civilian where practical and affordable not only for FY97 but also throughout the FYDP.

UNCLASSIFIED

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HOUSE / SENATE	APPROPRIATIONS COMMITTEE	HOUSE / SENATE	ARMED SERVICES COMMITTEE	x HOUSE / SENATE	OTHER NATIONAL SECURITY COMMITTEE		
HEARING DATE	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO.				
19 Mar 96			HN-14-003		USAF		

Readiness

UNCLASSIFIED

QUESTION: Over the past couple of years, the services and DoD have been developing comprehensive systems to measure readiness indicators, both from the individual service readiness perspective and from a joint readiness perspective. Last year we were informed that DoD was creating a "readiness baseline of indicators" to assess the current and future state of readiness. Do you now feel that we are getting accurate and rapid data that adequately measures force readiness? What improvements have you seen in the last year? Does more need to be done, or are we there? What is the status of efforts to identify and measure readiness indicators with predictive value? What indicators, besides those contained in SORTS, are particularly relevant for assessing the readiness of forces that are used frequently in contingency operations?

ANSWER: Yes, we are pleased with the accuracy of the data though existing technology offers opportunities to improve timeliness. We are working closely with OSD to further the development of the data collection and analysis needed to complete the "readiness baseline indicators". The project has identified that some of the indicators are useful for predicting general impacts to some readiness measures. The Air Force also uses retention rates, PERSTEMPO, aircraft mission capable rates, depot equipment maintenance backlog, operational readiness inspection trends, and mishap rates for assessing the readiness of forces.

UNCLASSIFIED

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	HOUSE / SENATE	APPROPRIATIONS COMMITTEE		HOUSE / SENATE	ARMED SERVICES COMMITTEE	x	HOUSE / SENATE OTHER National Security Committee
HEARING DATE	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO.				
19 Mar 96			HN-14-004				USAF

READINESS INDICATORS

UNCLASSIFIED

QUESTION: In your opinion, how effective has the Senior Readiness Oversight Council been since its inception last year? What significant contributions has the council made in dealing with readiness issues? What are some of the tangible items that have emerged from the process?

ANSWER: The Senior Readiness Oversight Council (SROC) has been very effective in providing a forum to review the status of readiness, both at the Service and Joint Chiefs of Staff level. The SROC's most significant contribution is an enhanced understanding and awareness of the impact that current operations is having on our preparedness to meet the demands of the National Military Strategy. The most tangible items include identifying potential readiness impacts from unfunded contingency costs and establishing priorities for enhanced readiness assessment efforts.

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	HOUSE / SENATE	APPROPRIATIONS COMMITTEE		HOUSE / SENATE	ARMED SERVICES COMMITTEE	x	HOUSE / SENATE	OTHER National Security Committee	
HEARING DATE	TRANSCRIPT PAGE NO.		LINE NO.		INSERT NO.				
19 Mar 96					HN-14-005			USAF	

READINESS INDICATORS

UNCLASSIFIED

QUESTION: Since the inception of the Joint Monthly Readiness Review (JMRR) process and the Senior Readiness Oversight Council (SROC) little more than a year ago, how have these reviews improved DoD's ability to assess readiness? What trends have been identified as a result of these reviews?

ANSWER: Without question the JMRR has improved our ability to assess readiness from the joint perspective. The Services have a good handle on assessing traditional "unit" readiness. The JMRR adds inputs from the CINCs and the Combat Support Agencies to the Service readiness assessments, including trends, to produce a comprehensive picture of our preparedness to meet the demands of the National Military Strategy. The results of the JMRR are briefed to the SROC and will be included in the Quarterly Readiness Reports to Congress (QRRC). Trends from the JMRR will be submitted through the QRCC to Congress on a quarterly basis. The first QRRC will be submitted by 30 Apr 96.

UNCLASSIFIED

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HOUSE / SENATE	APPROPRIATIONS COMMITTEE	X	HOUSE / SENATE	ARMED SERVICES COMMITTEE		HOUSE / SENATE	OTHER
HEARING DATE	TRANSCRIPT PAGE NO.		LINE NO.		INSERT NO.		
19 MAR 96					HN-14-006		USAF

Readiness Funding

UNCLASSIFIED

QUESTION: Please describe efforts that you are taking to ensure that infrastructure costs are reduced so that savings can be channeled into near-term and future readiness. How can this process be facilitated?

ANSWER: Commanders at all levels have been challenged to explore new areas to see where we can privatize, and thus lowering cost and reducing infrastructure which will free resources for modernization. We are focusing on partnerships with industry and labor, thus permitting all sides to maximize efficiencies, reduce operational costs and minimize government performance. Currently we are looking at outsourcing and privatization as options for improving housing and many base support areas that do not require military personnel or impact our ability to meet contingency taskings.

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	HOUSE / SENATE	APPROPRIATIONS COMMITTEE		HOUSE / SENATE	ARMED SERVICES COMMITTEE	X	HOUSE / SENATE	OTHER National Security Committee
HEARING DATE	TRANSCRIPT PAGE NO.		LINE NO.		INSERT NO.			
19 Mar 96					HN-14-007			USAF

OPTEMPO and PERSTEMPO

UNCLASSIFIED

QUESTION: The deployment of personnel in support of contingency operations has increased over the last few years. This increased pace of operations has fallen most heavily on a small number of critical units with unique specialties, including special forces, electronic warfare, and military police. What other types of forces have been heavily impacted by contingency operations? How has the readiness of these forces been affected over the last few years? Would you please identify key indicators that would provide the best measures of deployments impact on personnel readiness? What are the advantages and disadvantages of changing the force structure to increase the number of critical units with unique capabilities, assuming no increase in total force structure?

ANSWER: The forces most heavily impacted by contingency operations include our low density/high demand assets such as AWACS, ABCCC, Rivet Joint, U-2 and Rescue HC-130s. We have taken steps to mitigate the adverse impacts on readiness and currently, while heavily tasked, all these forces are healthy. The indicators that provide the best measures of deployments impact on personnel readiness include retention rates and PERSTEMPO. The advantages and disadvantages of changing the force structure involve what the force structure is currently designed to accomplish. The Air Force is currently sized for two MRCs and any change to the current force structure would require careful study.

UNCLASSIFIED

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	HOUSE	APPROPRIATIONS COMMITTEE		HOUSE	ARMED SERVICES COMMITTEE	X	HOUSE	OTHER	
	SENATE			SENATE			SENATE	National Security Committee	
HEARING DATE		TRANSCRIPT PAGE NO.	LINE NO.		INSERT NO.				
19 Mar 96					HN-14-009			USAF	

Impact of Contingency Operations

UNCLASSIFIED

QUESTION: What impact do operations in Bosnia have on the Services' ability to undertake another major mission simultaneously? Please provide responses by service, and comment on the availability of combat and support elements needed for a second operation.

ANSWER: Our Dec 95 analysis in the Joint Monthly Readiness Review showed we would be able to support an MRC along with the current operations in Bosnia. The impact would be to increase OPTEMPO and PERSTEMPO in both our combat and support elements.

UNCLASSIFIED

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X HOUSE / SENATE APPROPRIATIONS COMMITTEE		HOUSE / SENATE ARMED SERVICES COMMITTEE		HOUSE / SENATE OTHER	
HEARING DATE	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO.		
19 Mar 96			HN-14-010	USAF	

Readiness Funding

UNCLASSIFIED

QUESTION: General Eberhart, the budget request for FY-97 only funds 82% of your depot maintenance requirements. How concerned are you with this shortfall in depot maintenance funding and will this impact on your ability to meet your mission requirements and/or future contingency operations?

ANSWER: The funding level for depot maintenance in FY-97 will not significantly impact our ability to meet mission requirements and/or future contingency operations. The Air Force reduced the level of depot maintenance funding to meet OSD's goal of three months of funded carryover, assuming some minimal risk while we resolve near term capability shortfalls.

UNCLASSIFIED

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X HOUSE SENATE	APPROPRIATIONS COMMITTEE	HOUSE SENATE	ARMED SERVICES COMMITTEE	HOUSE SENATE	OTHER
HEARING DATE	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO.		
Mar 96			HN-14-011		USAF

Aircraft Replacement Engines

UNCLASSIFIED

QUESTION: General Eberhart, last year the subcommittee heard that there was a shortage of aircraft engines, especially in Europe. What is the current situation on aircraft engines and what has been done to correct this problem?

ANSWER: Overall, spare engine requirements continue to exceed the number of available spares in the Air Force inventory. However, spare engine levels remain a very high priority and we have ongoing initiatives that will improve our spare engines status. In the case of our spare engine inventory for bases in Europe, the current Base Stock Level (BSL) meets or exceeds the authorized number for each of the engines operated by USAFE.

UNCLASSIFIED

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	HOUSE	APPROPRIATIONS COMMITTEE		HOUSE	ARMED SERVICES COMMITTEE	x HOUSE	OTHER National Security,
	SENATE			SENATE		SENATE	Subcommittee on Readi
HEARING DATE		TRANSCRIPT PAGE NO.	LINE NO.		INSERT NO.		
19 Mar 96		HN-14-012					USAF

Funding for Contingency Operations

QUESTION: The Air Force has identified $781 million as the cost for FY-96 contingency operations. It is my understanding that $123 million of these costs have not been provided. How will you make up the shortfall? Will you have to cancel or adjust any previously scheduled training due to this shortfall?

ANSWER: If approved, the supplemental appropriation request and reprogramming actions currently being worked should fully fund Air Force contingency costs ($719 million).

INSERT FOR THE RECORD

HOUSE / SENATE	APPROPRIATIONS COMMITTEE	X	HOUSE / SENATE	ARMED SERVICES COMMITTEE		HOUSE / SENATE	OTHER
HEARING DATE: Mar 96	TRANSCRIPT PAGE NO.		LINE NO.		INSERT NO.: HN-14-013		USAF

Deployment Planning

UNCLASSIFIED

QUESTION: It is my understanding that the Joint Operational Planning and Execution System (JOPES) is under review due to repeated problems from deployments to Somalia, Haiti, and now Bosnia. These problems included finding that the wrong type of lift, too much lift, or no lift at all was assigned to particular missions and that part of the problems stem from the individual services not clearly defining their movement requirements. What is your view of the JOPES system and what can be done to improve it?

ANSWER: The Joint Operational Planning and Execution System (JOPES) is a subset of the World-Wide Military Command and Control System (WWMCCS) ADP System which was designed in the late 1960's using 70's mainframe computer technology regionally located throughout the world. It is used to conduct both deliberate and crisis action planning throughout the spectrum of conflict. During deliberate planning, JOPES is primarily used by the CINCs and their components to build operation plans in response to Joint Strategic Capabilities Plan (JSCP) taskings. During a crisis, it is used as a communication tool between the CJCS, the supported and supporting commanders and Service headquarters for developing and evaluating courses of action and building operations orders. Finally during execution, JOPES manages the deployment and redeployment of forces to and from the theater of operations. In spite of some problems, JOPES does provide the foundation for successful deployment management. The system, however, is not user friendly and is manpower intensive to operate. Efforts are underway to move the automated support from WWMCCS to the Global Command and Control System (GCCS). GCCS will provide a more flexible and user friendly system for DoD. Initial Operating Capability (IOC) should occur in the later part of this summer.

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	HOUSE	APPROPRIATIONS COMMITTEE		HOUSE	ARMED SERVICES COMMITTEE	X	HOUSE	OTHER	
	SENATE			SENATE			SENATE	National Security Committee	
HEARING DATE		TRANSCRIPT PAGE NO.		LINE NO.		INSERT NO.			
19 Mar 96						HN-14-014		USAF	

Readiness Indicators

UNCLASSIFIED

QUESTION: General Eberhart, in late 1993, the Air Force initiated a readiness assessment system called ULTRA, a new system that was to consider fiscal projections contained in the Five Year Defense Plan and predict readiness at varying levels of funding. It is my understanding that the Air Force put this on the back burner due to an uneasiness that the system could produce misleading results. What efforts are underway in the Air Force to identify and measure readiness indicators with a predictive value.

ANSWER: The Air Force did stop the ULTRA development due to the subjectivity of the manual inputs. Currently, the Air Force has chosen to monitor other development efforts that are underway to see where we can apply their successes, but none of these efforts are currently operational.

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INSERT FOR THE RECORD

HOUSE / SENATE	APPROPRIATIONS COMMITTEE	HOUSE / SENATE	ARMED SERVICES COMMITTEE	X	HOUSE / SENATE	OTHER	National Security Committee
HEARING DATE	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO.				
19 Mar 96			HN-14-015				USAF

OPTEMPO and PERSTEMPO

UNCLASSIFIED

QUESTION: General Eberhart, do you feel that current readiness reporting guidelines recognize the importance of high OPTEMPO and PERSTEMPO? If so, what are the current standards against which current conditions are measured?

ANSWER: Yes, the current readiness reporting guidelines recognize the importance of high OPTEMPO and PERSTEMPO. The current goal we have set for the Air Force is no more than 120 days TDY per person per year.

INSERT FOR THE RECORD							
HOUSE / SENATE	APPROPRIATIONS COMMITTEE	X	HOUSE / SENATE	ARMED SERVICES COMMITTEE	HOUSE / SENATE	OTHER	
HEARING DATE	TRANSCRIPT PAGE NO.	LINE NO.		INSERT NO.			
19 Mar 96				HN-14-016		USAF	

Force Readiness

UNCLASSIFIED

QUESTION: General Eberhart, concerns have been expressed that funding has been insufficient in the recent past to train pilots to be combat proficient in all areas of their aircraft's capabilities, e.g. air-to-air, air-to-ground, etc. In the past three budget requests, funded flying hours to maintain primary mission readiness has been declining while mission requirements have been increasing. Given the sophistication of the systems Air Force pilots have to operate, shouldn't funding and flying hours be increasing rather than decreasing? Are you confident that you can maintain aircrew proficiency, safety and all other training requirements with this level of funding?

ANSWER: Flying hours have decreased during the last three budget requests as a result of declining force structure. Now that force structure has leveled out, the flying hour program should stabilize. However, I am concerned that any further flying hour reductions could effect readiness. The Air Force may be required to add dollars from other fiscally-constrained programs to meet minimum readiness standards in FY97. We are currently conducting a complete review of the Air Force flying hour program to determine if current funding levels will maintain aircrew proficiency and safety.

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MAJ. GEN. CLINTON V. HORN, USAF
U.S. SPECIAL OPERATIONS COMMAND
(USSOCOM)

RESPONSES TO
MEMBERS' QUESTIONS
FOR THE

MARCH 19, 1996
HEARING RECORD
ON

FORCE READINESS

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QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
MILITARY READINESS SUBCOMMITTEE
READINESS
MARCH 19, 1996
QUESTION 1

FUNDING FOR BOSNIA OPERATIONS

Question: We have heard rumors that the supplemental and reprogramming request needed to cover FY-96 costs for Bosnia is underfunded. If this is true, what will be the impact on your FY-96 program? Will there be a reduction in flying hours, a reduction in programmed maintenance, including scheduled ship repairs, and/or a reduction on the amount of scheduled training?

General Horn: We have no indications that the supplemental and reprogrammed request is underfunded. Component commanders have diligently identified expenses associated with Bosnia. The United States Special Operations Command's (USSOCOM) projected Bosnia costs are $56.8 million for JOINT ENDEAVOR and $10.2 million for DENY FLIGHT, totaling $67.0 million for Fiscal Year 1996. As part of the Fiscal Year 1997 budget deliberations, the Office of the Secretary of Defense has approved funding for all estimated costs. Receipt of the $67.0 million will provide 100 percent of USSOCOM's estimated costs.

With the full and timely funding of our $67.0 million Bosnia reprogramming request, we foresee no curtailment of flying hours, programmed maintenance, or scheduled training.

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QUESTION FOR THE RECORD
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READINESS
MARCH 19, 1996
QUESTION 2

FUNDING FOR BOSNIA OPERATIONS

Question: The FY-96 Defense Authorization Act contains a number of provisions dealing with civilian personnel. In particular, section 1031 prohibits the use of FTE personnel ceilings in the management of the Department of Defense's civilian workforce. Section 1032 requires the Secretary of Defense to convert not less than 10,000 military positions to performance by civilian employees of the Department of Defense over a two year period. How are these two provisions being implemented within your respective services?

General Horn: Pursuant to the National Performance Review, the United States Special Operations Command (USSOCOM) reduced its civilian workforce by 235 full-time equivalent workyears during Fiscal Year 1995 and Fiscal Year 1996. Although management of our workforce is not solely dictated by arbitrary end strength ceilings, programmatic goals are in concert with a sound projection of full-time equivalent workyears. Although USSOCOM plans and programs for its military manpower, because it is a unified command with joint representation, its forces are embedded within each respective Service's level. The Services, as Executive Agent, coordinate initiatives to convert non-military essential positions to civilians. USSOCOM participates in scheduled conversions within targeted skills as appropriate.

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QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
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QUESTION 3

READINESS INDICATORS

Question: Over the past couple of years, the services and DOD have been developing comprehensive systems to measure readiness indicators, both from the individual service readiness perspective and from a joint readiness perspective. Last year we were informed that DOD was creating a "readiness baseline of indicators" to assess the current and future state of readiness. Do you now feel that we are getting accurate and rapid data that adequately measures force readiness? What improvements have you seen in the last year? Does more need to be done, or are we there? What is the status of efforts to identify and measure readiness indicators with predictive value? What indicators, besides those contained in SORTS are particularly relevant for assessing the readiness of forces that are used frequently in contingency operations?

General Horn: Yes, the readiness data that the United States Special Operations Command (USSOCOM) receives from its components is an efficient reporting system. It accurately gives USSOCOM both current and future readiness projections.

The one with the most impact is the Joint Monthly Readiness Review (JMRR). This has given USSOCOM a current, monthly update on the readiness assessment of USSOCOM components.

The assessments received at present are an adequate measurement of readiness. We will continue to refine the process to insure that we have the most meaningful and timely evaluations.

The study of predictive results has become readily available. Through the use of Status of Resources and Training System (SORTS) and the JMRR, special operations forces (SOF) receive current and 12 month readiness assessments on a monthly basis.

Operating and Personnel tempo (OPTEMPO and PERSTEMPO), when well defined and linked to the intangibles that form real readiness, such as unit morale and cohesion, may be useful supplementary measurements for assessing the readiness.

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QUESTION 4

READINESS INDICATORS

Question: In your opinion, how effective has the Senior Readiness Oversight Council been since its inception last year? What significant contributions has the Council made in dealing with readiness issues? What are some of the tangible items that have emerged from this process?

General Horn: The Senior Readiness Oversight Council is working well as a forum to review, discuss, and build consensus for action on issues pertaining to current readiness.

Readiness and Operational/Personnel tempo (OPTEMPO/ PERSTEMPO) issues receive enhanced visibility at the Department of Defense and Congressional levels. The process ties solutions to problems and we have begun to make progress on some difficult issues.

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QUESTION 5

READINESS INDICATORS

Question: Since the inception of the Joint Monthly Readiness Review (JMRR) process and the Senior Readiness Oversight Council (SROC) a little more than a year ago, how have these reviews improved DOD's ability to assess readiness? What trends have been identified as a result of these reviews?

General Horn: The JMRR and SROC have increased the visibility of personnel and manning issues in the Department of Defense. PERSTEMPO and OPTEMPO issues in the United States Special Operations Command are now better understood than at any time in the past. Because solutions are tied to problems, resolution occurs systematically.

Based on JMRR reviews, we have identified personnel shortfalls in selected units and have begun to isolate causative factors, such as manning shortages or training/qualification requirements, that impact on unit readiness.

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QUESTION 6

READINESS FUNDING

Question: It is widely reported that there is a competition between near-term readiness and modernization -- future readiness, with force structure as the potential loser. At the same time, there is a decided tip in resourcing the tooth-to-tail ratio -- with more resources going to fund defense support infrastructure than to combat capability. Please describe efforts that you are taking to ensure that infrastructure costs are reduced so that savings can be channeled into near-term and future readiness. How can this process be facilitated?

General Horn: Very little funding is applied to infrastructure, since special operations forces (SOF) rely on the Services for most of their support. The ever increasing SOF OPTEMPO, without the complimentary Total Obligation Authority (TOA) increase, results in an offset in the modernization/investment

We must continue to work with the Services to ensure that SOF receive equitable infrastructure support and continue to seek TOA increases to go hand-in-hand with OPTEMPO increases.

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QUESTION 7

OPTEMPO AND PERSTEMPO

Question: The deployment of personnel in support of contingency operations has increased over the last few years. This increased pace of operations has fallen most heavily on a small number of critical units with unique specialties, including special forces, electronic warfare, and military police. What other types of forces have been heavily impacted by contingency operations? How has the readiness of these forces been affected over the last few years? Would you please identify key indicators that would provide the best measures of deployments' impact on personnel readiness? What are the advantages and disadvantages of changing the force structure to increase the number of critical units with unique capabilities, assuming no increase in total force structure?

General Horn: We have noted significant increases in operations and personnel tempo (OPTEMPO and PERSTEMPO) which impact readiness. Some of our units are deployed far more frequently than we believe is prudent for the long-term health of the organization. This is true of several of our organizations -- particularly our active component Civil Affairs battalion, AC-130 gunship crews, Navy SEALs and Air Force Special Tactics personnel. Additionally, logistics units with the ability to operate from bare base sites have been heavily tasked.

We have not observed a major degradation of readiness in these forces to date. The primary effect of a heavy deployment schedule is felt in the area of training readiness. Units deployed to remote locations, particularly when conducting operations other than war, do not have the opportunity to train in the full range of skills needed to maintain sophisticated combat skills. This is somewhat offset by the benefit of increased language and cultural exposure opportunities to our regionally oriented forces.

In the short-term, the best indicator is the deployed unit's ability to meet established training standards and maintain organic equipment. Long-term

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indicators are the retention of career personnel, equipment availability, and individual career development training.

Assuming changes are effected across the entire Department of Defense force structure, the advantage is to immediately improve the availability of certain critical support units, particularly those with logistics support roles, with only marginal degradation to the overall force. However, a change in force structure will not have an immediate effect on units, such as SEAL Teams, due to limited recruiting bases, extended training pipelines and extensive screening processes.

Any disadvantages are to those organizations which lose structure. In general, the units proving to be critical to operations other than war are small in size but possess unique skills, such as psychological operations and civil affairs units.

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QUESTION 8

OPTEMPO AND PERSTEMPO

Question: You have been experiencing an increase in the pace of operations for the past several years. If this pace continues, what needs to be done to ensure force readiness in the future? What plans are there in the FY-97 budget request, or in future years, to recognize the increased usage of personnel and equipment?

General Horn: The Strategic Planning Process will prioritize the requirements in order to manage within a declining resources environment. Unfunded requirements created by the increased pace must be resourced internally or by additional appropriations.

The FY-97 budget request provides a slight increase over the authorized FY-96 force structure. An increase of 112 active duty personnel supports a crosswalk of 23 Army billets to special operations forces in support of the Special Operations Medical Training Center; 42 positions associated with the 160th Special Operations Aviation Regiment crew ratio initiative; and a net increase of 47 positions to support expanding requirements in the Advanced SEAL Delivery System (ASDS) and Mark V Special Operations Craft programs. The civilian workforce was stabilized at 2,695 projected full-time equivalent work-years. The United States Special Operations Command has implemented an integrated planning and programming process to develop a prioritized required capabilities list. Imbalances (shortages, excesses, deficiencies) within our current baseline (FY98-03) will be analyzed by assessment areas (strike, engagement, mobility, C4I, support). Analysis will take into account different planning scenarios as specified in the Defense Planning Guidance, component mission requirements, and lessons learned.

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QUESTION 9

IMPACT OF CONTINGENCY OPERATIONS

Question: What impact do operations in Bosnia have on the services' ability to undertake another major mission simultaneously? Please provide responses by service, and comment on the availability of combat and support elements needed for a second operation.

General Horn: The United States Special Operations Command uses the Joint Monthly Readiness Review (JMRR) to gauge the future readiness of its Service components to undertake Major Regional Contingencies (MRC) East and West. As shown in the March 1996 JMRR, which used a two-MRC scenario with an ongoing Lesser Regional Contingency that terminated early, each of the three SOF Service Components can support a second MRC simultaneously in the area of special operations without impacting the Bosnia operation. Both combat and support elements are available for a second major mission.

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QUESTION 54

MRC CHALLENGES

Question: Considering a two MRC scenario, what are the United States Special Operations Command's most significant readiness challenges?

General Horn: Our most recent Joint Monthly Readiness Report identified the following top readiness challenges:

-- Shortage of Career Military Field 18 (Special Forces) personnel

-- Shortage of personnel for active and reserve Civil Affairs (CA) and Psychological Operations (PSYOP) units

-- Shortage of modernization for active and reserve CA and PSYOP units

-- Shortage of suitable Rigid Inflatable Boats (RIBs)

-- Shortage of Navy SOF combat service support personnel

-- Shortage of trained helicopter pilots

-- Shortage of Special Tactics Squadron personnel

-- Shortage of spare parts of Air Force Readiness Spare Packages

-- Transition to, modification of, and shortages of AC/EC/MC-130 and MH-53 airframes affect ability to support concurrent MRCs

-- Lack of sufficient dedicated theater communications support (personnel and equipment) for the theater Special Operations Commands degrades ability to perform Joint Task Force functions

Overall, our forces are ready to execute the National Military Strategy.

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QUESTION 55

RESERVE COMPONENTS

Question: In special operations, how dependent are you on Reserve Component units?

General Horn: We are very dependent on our Reserve Component units. They comprise 30% of the Total Force, but their contributions go well beyond that. They were directly involved in the Gulf War, operations in Haiti and most recently Operation JOINT ENDEAVOR. Our Reserve Component forces are totally integrated into the planning, deployment and execution of virtually all of our exercises and real world missions.

Within the Army Special Operations Command, the Reserves comprise 28% of the Special Forces, 66% of the Psychological Operations forces, and 95% of the Civil Affairs forces.

The Air Force Reserve/National Guard comprise 17% of the Total Force. As we retired the older AC-130A model gunships from the Reserve last fall, we created the Active Duty 4th Special Operations Squadron (SOS) with the enhanced capabilities of the AC-130U. Combined with the eight AC-130H aircraft in the 16th SOS, the 4th SOS puts us in a better position to spread out the heavy gunship tasking. Simultaneously, we have transferred some of our airdrop, airland, and refueling responsibilities to the Reserve Component.

Reserve forces comprise 21% of the total Naval Special Warfare Force. The Reserve Components are used as "force expanders" for peacetime contributory support and are horizontally integrated with the Active Component. Reserves participate in the full spectrum of training activities, are fully mission capable, and ready to deploy upon mobilization.

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QUESITON #56

CONTINGENCY OPERATIONS

Question: What are your current force levels in operation JOINT ENDEAVOR? Has this force level changed much since the US entered the operation?

General Horn:

HIGH LEVEL (30 Jan 96) TOTAL:	1,711	Civil Affairs	296
		PSYOP	254
		SOF	1,161
CURRENT LEVEL (27 Mar 96) TOTAL:	1,343	Civil Affairs	310

No, the force level has not changed much since the U.S. entered the operation.

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QUESTION # 57

AMMUNITION FUNDING

Question: The budget request for FY-97 provides only $30.6 million for the procurement of ammunition for special operations forces -- this is more than a 50 percent reduction from previous years. What will be the impact of this reduction? Will any previously scheduled training exercises have to be adjusted or canceled?

General Horn: Special operations forces (SOF) ordnance replenishment does reflect a reduction due to accelerated ammunition buys in FY-94 and FY-95. The buy provided cost savings and reductions in the Fiscal Year 1997 baseline request. Additionally, we are using a new method to compute ammunition needs that has reduced the funding requirement.

No, we will not be cancelling or adjusting any scheduled training exercises.

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QUESTION 58

AC-130 AIRCRAFT

Question: We understand the Air Force Special Operations Command is experiencing difficulties maintaining the newly installed radar on it's MC-130 aircraft, and that this has affected the readiness of some SOF units. How significant is this problem and its effect on readiness? What are the major causes of this problem? When do you expect the problem to be resolved?

General Horn: The MC-130H fleet currently meets Air Force Special Operations Command mission capable rate standards. The AN/APQ-170, a multimode system capable of terrain following, terrain avoidance, weather detection, and ground mapping, was fielded on the 24 MC-130H aircraft procured. The issue is that Air Force maintainers cannot repair the radar due to a lack of subcomponents. By Air Force Material Command policy, spare subcomponents for a system are not procured before final configuration is attained. At present, the radar is replaced upon failure with a Line Replacement Unit (LRU). Intermediate and Depot level repairs to the system are effected under Interim Contractor Support. There are adequate LRUs in the MC-130H squadrons' readiness spares Kits. This approach avoids any significant impact on readiness.

The radar was fielded prior to completion of full development, a relatively common practice, and subcomponent spares procurement is not appropriate until system configuration stabilizes.

Final radar configuration will be fielded with full logistics support between October 1997 and December 1998.

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OPTEMPO AND PERSTEMPO

Question: With the down-sizing of conventional forces, we understand that demands for special operations forces have increased, both in their role in the support of plans for a MRC and for use in providing forward presence in foreign countries. How significant is this increased demand and what effect is it having on the readiness of SOF units?

General Horn: The increased demand for special operations forces (SOF) is significant. The following table illustrates the scale of this trend between Fiscal Years 1992-1995.

	FY-92	FY-93	FY-94	FY-95	INCREASE FY 92-95
Total Missions	1,331	1,834	2,216	2,765	108%
Personnel Deployed OCONUS (Weekly Average)	1,626	2,036	2,900	3,715	129%
Countries with Deployed SOF (Weekly Average)	46	46	67	69	50%

This steady increase in demand has come at a time when SOF is downsizing -- two Reserve Component Special Forces Groups were deactivated in FY-94.

The current level of OPTEMPO has challenged our ability to maintain the high state of readiness expected of SOF. However, by carefully managing training resources, personnel rotations, and taking advantage of emerging training opportunities, SOF commanders have minimized the impact of OPTEMPO on readiness so that there is no significant degradation of mission capability.

The increased deployments give personnel more opportunities to use their military, language, and cultural skills in real, not simulated, environments. Whole new cultures, languages, and environments, once inaccessible, are now available for SOF personnel to experience first-hand. Being able to actually

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use their skills and talents, working within the environments they have trained to perform in and seeing real results for their efforts has helped SOF personnel maintain high morale and readiness.

Readiness will be adversely affected should the OPTEMPO and PERSTEMPO continue to grow much beyond present levels. Some required skills training cannot be conducted while deployed. When training requirements exceed resources available, especially time, some skills training will be reduced or eliminated. Personnel must be afforded the opportunity to attend professional development courses and schools to remain effective and competitive for promotion. Frequent and lengthy family separations greatly affect the quality of life and morale of our service members and their families.

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QUESTION 59A

OPTEMPO AND PERSTEMPO

Question: With the increased demands placed on the Special Operations Forces, especially during the recent contingency operations, what are your PERSTEMPO problems? Are there any remedies on the way?

General Horn: We have noted significant increases in operations and personnel tempo (OPTEMPO and PERSTEMPO) which have impacted readiness. Some of our units are deployed far more frequently than we believe is prudent for the long-term health of the organization. This is true of several of our organizations -- particularly our active component Civil Affairs battalion and AC-130 gunships, Navy SEALs and Air Force Special Tactics Squadrons.

The AC-130 problem will be alleviated as we field the thirteen new AC-130U gunships. We had originally planned to take the currently active AC-130H gunships and send them to the Air Force Reserve to replace the Vietnam-vintage AC-130As flown by the 919th Special Operations Wing, but with the increasing demand for gunships to support numerous operations other than war around the world, the Air Force Special Operations Command has decided to keep the AC-130H model in the active force. These eight gunships, when combined with the thirteen new AC-130U aircraft, will provide a healthy gunship force that should be able to meet geographic combatant commanders requirements while still providing a reasonable level of OPTEMPO for the crews and sufficient time to conduct training for crews and maintenance on the aircraft.

The solution for the Civil Affairs unit has already been demonstrated in Haiti and Bosnia. Access to our superb Reserve Component Civil Affairs units will reduce active component OPTEMPO to a reasonable level. Because the Reserve units have needed capabilities that cannot be found in the active

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force, access to these reserve forces becomes even more critical. Programming additional active forces alone is not the key, in my estimation, because there is no way our young active component officers and NCOs can replicate the skills and experience of the long-serving reservists. That said, however, we must also look at simplifying our ability to quickly call up and deploy Reserve Civil Affairs and Psychological Operations units while we guard against the equal threat of such heavy utilization of our reserve forces that would adversely affect the civilian occupations of our people.

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QUESTION #60

FUNDING FOR SPECIAL OPERATIONS

Question: The separate funding for special operations provided under Major Force Program 11 (MFP-11) has remained fairly constant since the Special Operations Command was established. We understand that fixed costs have increased due to inflation, and that O&M costs have risen due to increased OPTEMPO. Could you comment on the effect of these factors on SOF assets, specifically on the continued ability to maintain and modernize the sophisticated weapons systems and equipment required by your operations?

General Horn: There has been a significant increase in special operations forces (SOF) OPTEMPO over the past few years. We have had forces in Haiti, Bosnia, and many other parts of the world. The expenses associated with increased OPTEMPO coupled with rising personnel costs, have come from our modernization accounts without the benefit of increased Total Obligation Authorization (TOA). For example, when we developed Program Objective Memorandum 1994-1999, we planned a total Fiscal Year 1997 budget of $3.419 billion. As we have successfully gone through the cycles of the Fiscal Year 1994 President's Budget, Program Review 1995, Fiscal Year 1995 President's Budget, Program Objective Memorandum 1996, and finally Program Review 1997, the original planning figure has dropped to $3.041 billion -- a decrease of 11 percent to our total TOA. When we look at the same timeframe for the investment portion of our budget, the magnitude of this decrease is even more pronounced. We began with a Fiscal Year 1997 planning figure of $955 million for SOF modernization and are currently at $577 million; this decrease of $378 million represents a drop of 40 percent.

We are unable to fully fund all programs and remain within reduced budgets. Increased OPTEMPO requires the United States Special Operations Command to make significant offsets in modernization accounts. By carefully

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monitoring the situation we hope to minimize its impact on our modernization efforts. We have developed a Strategic Planning Process to prioritize requirements and better focus diminishing resources.

Reductions in modernization risk our future capability and will eventually result in SOF with outdated equipment. The sustainment costs to maintain and operate old equipment erodes our fiscal ability to field the improved systems our forces need to remain the premier special operations forces in the world. We need to revitalize our modernization accounts beginning with Fiscal Year 1997.

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QUESTION # 604

FUNDING FOR SPECIAL OPERATIONS

Question: Does the FY 97 O&M budget for Special Operations Command adequately fund your requirements?

General Horn: The Major Force Program 11 (MFP-11) portion of the Fiscal Year 1997 President's Budget supports the National Military Strategy with an acceptable level of risk. While it is more constrained than we would like, it is a balanced executable program for the near term. However, we have two major concerns:

First, our involvement in PROVIDE COMFORT, ENHANCED SOUTHERN WATCH, and JOINT ENDEAVOR may prove more expensive than currently envisioned with the result that we may be forced to degrade our wartime readiness posture to continue these operations.

Second, with our declining Total Obligation Authority (TOA) and high OPTEMPO, we have been forced to greatly curtail our investment in new weapons systems and other support equipment. While this does not impact our readiness in the near-term, we are in fact mortgaging our future. We need additional funding in our investment accounts to ensure that we remain the strongest, most capable special operations forces in the world.

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TRAINING

Question: With the changes in the world security environment, special operations forces are being used increasingly for operations other than war. What effect have these duties had on the ability of SOF units to maintain training and proficiency in the critical skills needed for special operations?

General Horn: Doctrinally, most special operations forces (SOF) collateral missions fall into the category of operations other than war (OOTW). On the whole, participation in OOTW has a beneficial effect by increasing proficiency through hands-on experience.

Nontheless, there are areas where SOF proficiency has suffered due to heavy participation in OOTW. For example, the AC-130H fleet has been heavily employed and the resulting OPTEMPO has put the training program approximately nine months behind. We see relief coming as the AC-130U reaches initial operational capability. The AC-130H training backlog should begin to diminish by late summer.

Another example is Army Special Forces. In the European Command, Special Forces have noted declining proficiency in areas such as military free-fall, alpine operations, mountaineering, maritime operations, and language/cultural training, because of frequent and prolonged deployments which deprive our forces of the ability to train for war.

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CONTINGENCY FUNDING

Question: You note in your testimony that estimated costs through FY-96 for contingency operations total nearly $83 million. Are all of your FY 96 costs for contingency operations reflected in the reprogramming and supplemental requests? If not, what is the shortfall?

General Horn: Currently, $80.9 million of the United States Special Operations Command's $83 million estimated costs for Fiscal Year 1996 contingency operations are reflected in the reprogramming and supplemental requests.

Our requests did not include $2.126 million estimated for "classified" operations because the classification level prevented us from providing enough information to defend our estimate. These are legitimate costs incurred by SOF units. The operations not included in the reprogramming and supplemental requests are:

OPERATION	FY-96 Estimate	FY-96 Year to Date
UTOPIAN ANGEL	$1.867M	$0.685M
POLAR MOON	$0.050M	$0.028M
PROMISE KEPT	$0.038M	$0.014M
POISE TALON	$0.171M	$0.171M
TOTAL	$2.126M	$0.898M

MG WILLIAM J. BEGERT
US TRANSPORTATION COMMAND
(USTRANSCOM)

RESPONSES TO
MEMBERS' QUESTIONS
FOR THE

MARCH 19, 1996
HEARING RECORD
ON

FORCE READINESS

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QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
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Funding for Bosnia Operations

Question: We have heard rumors that the supplemental and reprogramming request needed to cover FY-96 costs for Bosnia is underfunded. If this is true, what will be the impact on your FY-96 program? Will there be a reduction in programmed maintenance including scheduled ship repairs, and/or a reduction on the he amount of scheduled training?

General Begert: There is no expected direct impact on the FY-96 Defense Business Operating Fund - Transportation (DBOF-T) program. It is possible that the Services may have to reduce planned training in order to support unprogrammed transportation costs for Bosnia. The DBOF-T would then expect a temporary increase in unpaid accounts receivable and a temporary subsequent decline in available cash.

The impact of underfunding is felt most acutely by the Services. USTRANSCOM would then feel the ripple effect within DBOF-T.

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Funding for Bosnia Operations

Question: The FY 96 Defense Authorization Act contains a number of provisions dealing with civilian personnel. In particular, section 1031 prohibits the use of FTE personnel ceilings in the management of the Department of Defense's civilian workforce. Section 1032 requires the Secretary of Defense to convert not less than 10,000 military positions to performance by civilian employees of the Department of Defense over a two year period. How are these two provisions being implemented within your respective services?

General Begert: The FY 96 Defense Authorization Act (Public Law 104-106, section 1031) addresses the issues of civilian full-time equivalent (FTE) personnel ceilings in the management of the Department of Defense's civilian workforce. Decisions on how to implement (PL 104-106, section 1032) converting military positions to civilian positions are decisions made by the Office of Secretary of Defense and/or Services. These issues fall under the traditional Service responsibilities to maintain, train, and equip forces for warfighting Commander in Chiefs (CINCs). However, United States Transportation Command does monitor manpower and personnel actions that impact the ability of the Transportation Component Commands to conduct the strategic mobility mission. No issues regarding these two initiatives have been raised with us to date.

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Readiness Indicators

Question: Over the past couple of years, the services and DoD have been developing comprehensive systems to measure readiness indicators, both from the individual service readiness perspective and from a joint readiness perspective. Last year we were informed that DoD was creating a "readiness baseline of indicators" to assess the current and future state of readiness.

- Do you now feel that we are getting accurate and rapid data that adequately measures force readiness?
- What improvements have you seen in the last year?
- Does more need to be done, or are we there?
- What is the status of efforts to identify and measure readiness indicators with predictive value?
- What indicators, besides those contained in SORTS, are particularly relevant for assessing the readiness of forces that are used frequently in contingency operations?

General Begert:

- Yes, I believe we are receiving prompt and accurate data which measures force readiness. The quarterly Joint Monthly Readiness Review (JMRR) is our primary tool used in this process. The JMRR provides a subjective monthly assessment of our readiness to execute the National Military Strategy through a comprehensive, current overview of unit and joint readiness and commitments.
- We have seen improvements since the initiation and maturation of the JMRR. The JMRR has improved our ability to identify shortfalls and apply resources to best maintain and enhance our readiness posture.

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- Yes, more needs to be done and ideas for further improvement were recently discussed at the Worldwide Operations Directors (J3) Conference. Our improvements will focus on increasing accuracy, improving timeliness and automating the readiness process.
- The JMRR process includes a 12 month forecast of our transportation capability using established key functional areas as readiness indicators.
- The readiness indicators used in the JMRR are relevant for assessing the readiness of our assets used frequently in contingency operations. The indicators applicable to USTRANSCOM are: Intelligence/Surveillance/Reconnaissance; Command and Control, Communications, Computers; Mobility; Logistics/Sustainment Infrastructure; Joint Headquarters Capability; and Joint Personnel. Assessing readiness against these key functional areas enables us to measure our ability to support the geographical CINCs in integrating and synchronizing their forces.

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Question: In your opinion, how effective has the Senior Readiness Oversight Council (SROC) been since its inception last year? What significant contributions has the Council made in dealing with readiness issues? What are some of the tangible items that have emerged from this process?

General Begert: The SROC has been effective in highlighting USTRANSCOM's readiness issues. This council brings the senior civilian and military leadership together to review key readiness topics which affect our capability. This forum has fostered better understanding of our more significant readiness concerns and built consensus for action. Specifically, our concerns over surge sealift and strategic airlift have been articulated in the SROC and served to keep strategic lift modernization and enhancements on track.

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Question: Since the inception of the Joint Monthly Readiness Review (JMRR) process and the Senior Readiness Oversight Council (SROC) a little more than a year ago, how have these reviews improved DoD's ability to assess readiness? What trends have been identified as a result of these reviews?

General Begert: The Joint Monthly Readiness Review (JMRR) is our primary tool to measure near-term readiness. This tool helps us identify how we apply resources. It assesses readiness in the context of current operational requirements and the ability to successfully perform two near simultaneous major regional contingencies (MRC).

During the past seven JMRR cycles, under different scenarios constructed by the Joint Staff, we have noted shortfalls in the areas of sealift, material handling equipment and the West Coast containerized ammunition port capability. Although USTRANSCOM does not provide a report directly to the SROC, JMRR information is included in the Vice Chairman's joint readiness assessment presented to the SROC. This provides us an indirect opportunity to present mobility shortfalls identified in the JMRR to the Deputy Secretary of Defense and other senior military and civilian leadership.

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Readiness Funding

Question: It is widely reported that there is a competition between near-term readiness and modernization -- future readiness, with force structure as the potential loser. At the same time, there is a decided dip in the resourcing the tooth to tail ration -- with more resources going to fund defense support infrastructure than to combat capability. Please describe efforts that you are taking to ensure that infrastructure costs are reduced so that savings can be channeled into near-term and future readiness. How can this process be facilitated?

General Begert: USTRANSCOM recognizes the need to reduce Defense Transportation System (DTS) costs and has worked diligently to improve our peacetime management processes and operations. We are confident our efforts will result in an efficient and effective DTS which will form a streamlined baseline from which we can optimize transportation readiness to meet the Nation's wartime needs.

USTRANSCOM's Command Streamlining efforts include actions to eliminate the traffic management fragmentation, flatten command structures, reduce overhead support functions, collocate in-theater component command sites, and reduce global port presence. Our Reengineering effort addresses streamlining of the transportation acquisition process, the transportation accounting, payment and billing processes as well as the potential privatization of some transportation functions.

USTRANSCOM has undertaken numerous initiatives to reduce Defense

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Transportation System costs to the taxpayer. We have actively engaged our Transportation Component Commands in our efforts.

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OPTEMPO and PERSTEMPO

Question: The deployment of personnel in support of contingency operations has increased over the last few years. This increased pace of operations has fallen most heavily on a small number of critical units with unique specialties, including special forces, electronic warfare, and military police. What other types of forces have been heavily impacted by contingency operations? How has the readiness of these forces been affected over the last few years? Would you please identify key indicators that would provide the best measure of deployments' impact on personnel readiness? What are the advantages and disadvantages of changing the force structure to increase the number of critical units with unique capabilities, assuming no increase in total force structure?

General Begert: USTRANSCOM forces that have been heavily impacted by contingency operations are KC-135 air refueling units, Tanker Airlift Control Elements (TALCEs), and aerial port units. Over the last few years the personnel readiness of these specialties has remained high. Deployments and flying hours have kept these specialties well trained and qualified.

Without an increase in overall force structure, increasing the number of units required to perform contingency operations, at the expense of units with other skills, may be detrimental to our ability to perform a dual MRC.

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Question: You have been experiencing an increase in the pace of operations for the past several years. If this pace continues, what needs to be done to ensure force readiness in the future? What plans are there in the FY-97 budget request or in future years, to recognize the increased usage of personnel and equipment?

General Begert: The DoD expends great effort to translate assigned missions into budgetary requests and we have been fortunate to have had strong support for these requests by this Committee. Lastly it is important to fund additional missions as they are assigned. The costs associated with the increased usage of personnel and equipment in contingencies are very difficult if not impossible to forecast in the budgetary process. We depend on supplemental funding to make up near term shortfalls.

The FY-97 revised DBOF-T program has not considered contingencies and provides only for the normal operation and maintenance of air, sea and surface transportation assets. Higher maintenance and personnel costs are an inevitable outcome of unprogrammed Operations Other Than War (OOTW) activities and it is imperative that these costs be reimbursed to the DoD as they occur.

Higher operations tempo in airlift will likely result in higher maintenance costs in the future. We are energizing our commercial partners to the maximum degree to provide the airlift capability necessary to support contingency operations. The FY-97 revised DBOF-T program has not considered contingencies and provides for the normal operation and maintenance

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of air and sea transportation assets. Service procurement appropriations do include moneys to continue the replacement of our aging airlift and sealift fleets.

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Impact of contingency operations

Question: What impact do operations in Bosnia have on the services' ability to undertake another major mission simultaneously? Please provide responses by service, and comment on the availability of combat and support elements needed for a second operation.

General Begert: The combat support elements of USTRANSCOM involved in Bosnia include Tanker Air Lift Control Elements (TALCEs), which are organic to our air component Air Mobility Command, and some elements of our Military Traffic Management Command-Europe (MTMC-EUR) who have a permanent presence at the ports in Europe where they were utilized. The TALCEs were in place and used in the early phases of the deployment. They were withdrawn when their services were replaced with fixed port operations by the supported CINC. Military Sealift Command supported the operation with less than one percent of their total assets. Because the number of TALCE, MTMC, MSC personnel and assets was relatively small, their participation in Bosnia had little impact on our ability to support a second operation.

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Joint Operational Planning and Execution System (JOPES)

Question: It is my understanding that the Joint Operational Planning and Execution System (JOPES) is under review due to repeated problems from deployments to Somalia, Haiti, and now Bosnia. These problems included finding that the wrong type of lift, too much lift, or no lift at all was assigned to particular missions and that part of the problems stem from the individual services not clearly defining their movement requirements. What is your view of the JOPES system and what can be done to improve it?

General Begert: I fully support the use of JOPES in both joint exercises and real-world contingency operations, as directed by the Chairman, Joint Chiefs of Staff (CJCS). The effectiveness of JOPES in Operations DESERT SHIELD and DESERT STORM was endorsed by USCINCCENT and USCINCTRANS for the system's ability to successfully manage the largest deployment of US forces since WWII. Many lessons learned from those operations have been incorporated into JOPES over the last few years.

The most recent contingencies involving the use of JOPES demonstrated the need for keeping a force of highly trained JOPES users available and integrated at all levels of command. Although JOPES is primarily used at the Major Command (MAJCOM) level and above, understanding JOPES procedures and policy as they impact units below the MAJCOM level is key to the overall effectiveness of JOPES.

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The most significant JOPES improvements will occur as JOPES migrates from the World Wide Military Command and Control System (WWMCCS) to the Global Command and Control System (GCCS). In the near term, planned changes will improve system flexibility, user interfaces, and responsiveness to better accommodate the dynamic world of regional contingency operations.

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Supporting Two Major Regional Conflicts

Question: We understand that TRANSCOM is programming for a two year MRC scenario. Please describe your plans for MRC East and West.

General Begert: USTRANSCOM supports the geographical CINCs detailed deliberate planning of their operations plans. Currently, we have updated plans for the single major regional contingencies (MRCs). Detailed deliberate plans for the two nearly simultaneous MRCs are being developed. They will be completed within the next year. We anticipate that the dual MRC concept will be to deliver the halting forces to the first MRC.

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Impact of Deployments Upon the Two MRC Strategy

Question: How do contingency deployments for peacekeeping and humanitarian purposes impact upon your ability to support the current two MRC strategy?

General Begert: Every three months, we evaluate the impact on-going operations and contingencies have on our ability to support the two MRC strategy. These results are reported in the Joint Monthly Readiness Review (JMRR). Recent contingency operations have required relatively small quantities of strategic lift. However, if contingencies were of such a magnitude that significant requirements were placed on strategic lift, there may be a major impact on our ability to quickly shift priorities to support two major regional contingencies.

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Activation of Commercial Shipping

Question: What is the extent of your reliance upon commercial shipping and describe your plan to activate this capability?

General Begert: We rely on the commercial sealift industry for movement of all of our sustainment requirements. We would also be forced to rely on the commercial sealift industry to minimize the critical shortfalls that currently exist in our surge capability until we have completed procurement of the Ready Reserve Force RO/ROs and the Large Medium Speed RO/ROs (LMSRs).

Future availability of U.S. flag vessels is problematic. U.S. flag vessels provide a higher assurance of contingency access to sealift, and to the U.S. mariners needed to man the DoD-owned fleet. Since DS/DS, the size of the U.S. flag military useful commercial dry cargo fleet has decreased from 158 to 125 vessels.

Future availability of foreign flag ships is dependent on foreign support for the contingency. For example, Arab countries might not respond to U.S. charter requests in a conflict involving Israel. In addition, although newer foreign ships are larger and have greater military utility, the majority of these ships are actively engaged in moving commerce.

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To improve access to U.S. capability, we are developing the Voluntary Intermodal Sealift Agreement (VISA) in cooperation with Department of Transportation (Maritime Administration) and the commercial sealift industry. VISA is a sealift readiness program that will provide the DoD with assured access to time-phased contractual commitments, similar to the Civil Reserve Air Fleet (CRAF) for the airlift industry. The Secretary of Defense (SECDEF) on 30 Oct 95 approved VISA Stage III as a one year satisfaction of the Sealift Readiness Program (SRP) requirement. We are continuing to refine the concept for VISA Stages I & II in preparation for full implementation of VISA. Similar to CRAF, VISA Stages I & II are envisioned as USCINCTRANS activated with SECDEF approval. VISA Stage III requires SECDEF and Secretary of Transportation approval for activation.

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CRAF Activation

Question: What is the current status of the Civil Reserve Air Fleet and please describe the method for activation? Are there any deficiencies that need to be corrected?

General Begert: CRAF is working well. Currently, all major carriers are participating and the program is healthy both for passengers and cargo. Although CRAF has not been activated since the Gulf War, we depend on CRAF air carriers to augment our strategic airlift capability for both routine peacetime missions and to meet contingency requirements. CRAF carriers routinely respond in a timely manner to meet DoD needs.

USCINCTRANS may incrementally activate the three CRAF stages with Secretary of Defense approval. Once a stage is activated, USCINCTRANS will only call up that portion of the capability that is needed. Stage I contains passenger and cargo Long Range International (LRI) aircraft with a 24 hour response time. Stage II includes additional passenger and cargo LRI aircraft with a 24 hour response capability, and adds aeromedical evacuation which can respond in 48 hours. Stage III increases participation in all segments and has a 48 hour response time.

A deficiency associated with CRAF pertains to quickly repaying the air carriers should a civil aircraft be lost while the aircraft is insured by the Federal Aviation Administration's Aviation War Risk Insurance. The FAA's

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insurance fund for this program only contains a little over $61 million. Newer commercial aircraft can easily cost over $150 million, and total claims could bring the total to many times that. Obtaining a supplemental appropriation to cover the amount in excess to the FAA's insurance fund could be a lengthy process. Many air carriers have expressed concern over the adverse financial impacts on them if payment is delayed. We believe the long-term solution is to provide the Secretary of Defense the authority to use any appropriated funds which are unobligated to quickly repay any amount over the FAA's insurance fund. Last year, DoD supported a legislative initiative which would extend this authority to the Secretary of Defense. Although this initiative did not make either markup last year, we continue to support this initiative and urge you to pass this legislation when it is reintroduced.

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MRC Mobility Assumptions

Question: What are the underlying assumptions under the two MRC scenario? In your personal view, is TRANSCOM capable of supporting this requirement while also supporting contingency operations?

General Begert: The first underlying assumption in the two MRC scenario is the timeliness of decisions at the National Command Authority (NCA) level. For the first MRC, early NCA decisions are important in matters concerning reserve call up, CRAF and VISA activation, funding and war risk insurance. Diplomatic clearances and use of enroute bases are also important issues that must be resolved early. All of these issues impact USTRANSCOM's ability to begin support to the geographical CINCs. As we begin the second MRC, timely decisions on other key assumptions such as authorization of Civil Reserve Air Fleet (CRAF) stage III and US flag fleet requisitioning are important to begin the preparations for support to a second theater.

USTRANSCOM is capable of supporting the two MRC scenario while supporting contingency operations to a limited degree. It would depend greatly on the magnitude of the contingency when the two MRC strategy is executed or where we are in the two MRC execution when a contingency arises. Such a situation would certainly require prioritization when competing for strategic lift. The question is how long it takes us to close the force and how much risk is associated with increased closure times.

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Bosnia and other Contingencies

Question: What has been the experience in Bosnia? Were there any particular problems with supporting this deployment? What lessons have been learned?

General Begert: While our experience in Bosnia was generally positive, we discovered several areas requiring improvement.

JOINT ENDEAVOR highlighted the criticality of en route infrastructure. Constraints at Ramstein, including limitations in runway length, availability of wide body parking spaces and quiet hour constraints, restricted its usage. As expected, Rhein Main was needed as a major hub for strategic airlift. While most of the problems in bringing Rhein Main out of caretaker status were minor, it highlighted the importance of these major enroute contingency bases.

Employment of the C-17 in Joint Endeavor further validated the aircraft as a uniquely capable and tremendously versatile, strategic lift aircraft. The aircraft exceeded expectations. Its success will undoubtedly increase its demand worldwide. We are developing greater C-17 expertise at all levels to optimize planning and ensure its proper use.

Joint Endeavor also demonstrated the flexibility of the Defense Transportation System. In spite of austere conditions, inadequate infrastructure, and operational uncertainties, the system and our units had the ability to adapt and transport troops and equipment in a highly effective and efficient manner.

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Question: Have the recent operations such as Bosnia, Haiti, and Southwest Asia driven OPTEMPO and PERSTEMPO to unacceptable levels?

General Begert: No. While our OPTEMPO and PERSTEMPO remains high, it is still within acceptable limits.

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Question: Have these operations had a negative effect on training or readiness within TRANSCOM?

General Begert: The Defense Transportation System (DTS) has had no appreciable break from high operations tempo (OPTEMPO) since DESERT SHIELD/DESERT STORM. This situation has, on occasion, caused additional strain on our ability to accomplish routine training requirements. Contingency operations do however provide opportunities for some types of training. On balance we have not had a significant training problem due to high OPTEMPO.

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Question: What impact have these operations had on your older model aircraft and ships?

General Begert: Maintaining a high ops tempo with older aircraft is particularly challenging. As the C-141's retire and procurement of the C-17 begins, we increasingly rely on the C-5. The C-5 has been plagued for some time by low mission capable rates and increased depot level maintenance requirements associated with the age of the aircraft, and incorporation of key modifications to improve the reliability, maintainability, and capabilities of the fleet.

Contingency operations which require the activation of RRF ships are actually desirable and improve their readiness status.

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Question: What have you learned from Bosnia and other contingency operations about USTRANSCOM's readiness?

General Begert: Although some equipment is aging and in need of replacement, overall USTRANSCOM is well suited to meet contingency operations of a diverse nature.

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OPTEMPO and PERSTEMPO

Question: What units are affected by high OPTEMPO?

General Begert: Air Mobility Command (AMC) has the highest Temporary Duty (TDY) rates among USTRANSCOM's component commands. The USAF goal is to stabilize average annual TDY rates to less than 120 days per year. The numbers shown below reflect deployment times for the last 12 months, from February 1995 through January 1996. These numbers include the Bosnia deployment, as well as all other operations occurring over this 12 month period. The five most heavily tasked skill specialties are (average number of days TDY by specialty):

- KC-135 aircrews, 102 days/year
- Tanker Airlift Control Elements, 99 days/year
- C-141 aircrews, 93 days/year
- Aerial Port Operations, 90 days/year
- KC-10 aircrews, 85 days/year

The five most heavily tasked AMC units are (average number of days TDY per person):

- 22 Air Refueling Wing (aircrew), McConnell AFB, 118 days/year
- 62 Aerial Port Squadron, McChord AFB, 117 days/year
- 314 Aerial Control Squadron, Little Rock AFB, 117 days/year
- 633 Air Mobility Control Flight, Kadena AB, 115 days/year

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- 7 Aerial Control Squadron, Dyess AFB, 101 days/year

In addition, in our Army component, their transportation personnel are averaging 90 days/year.

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Question: What has USTRANSCOM done to lessen the negative impact of high OPTEMPO?

General Begert: To lessen the negative impact of high OPTEMPO on active duty forces, USTRANSCOM has increased reliance on the commercial sector, and Guard/Reserve components. Both have responded superbly.

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Question: Has the downsizing of USTRANSCOM forward deployed forces combined with the high OPTEMPO had a negative affect on PERSTEMPO and readiness?

General Begert: The downsizing of all forces overseas has placed a greater burden on USTRANSCOM forces. We must be prepared to move U.S. forces worldwide on a moments notice. From the TRANSCOM personnel perspective, this has resulted in a capability shortfall that must be filled by Temporary Duty (TDY) forces from the CONUS. While USTRANSCOM continues to meet the demands of its mission, there is clearly a point where accelerated OPTEMPO can impact PERSTEMPO and readiness. We have not reached this point in the Defense Transportation System but in some areas we are close. Aging equipment is being pushed hard. Reductions in enroute support infrastructure and lack of surge sealift challenge our ability to quickly deploy anywhere in the world.

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Reserve Components

Question: How dependent are you on the National Guard and Reserves?

General Begert: USTRANSCOM is heavily dependent upon Air National Guard and Reserves for total transportation support. When immediate crisis response is required, we need early and assured access to large numbers of Reserve component forces to "prime the transportation pipeline." For example, fully 100% of MTMC's port operating units are in the reserve. During a major conflict the Guard and Reserve would provide approximately 56 percent of the military personnel involved in CONUS land transportation, approximately 46 percent involved in military airlift, and 88 percent involved in sealift.

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Mobility Enhancement Fund

Question: The committee has consistently supported the mobility enhancement fund. What are some of the examples of use of this funding? Has this been effective?

General Begert: The Mobility Enhancement Fund (MEF) has provided an excellent opportunity for DoD to make significant improvements to our strategic mobility infrastructure. The ability to apply funds against critical requirements was a major factor in our ability to improve and fine tune the Defense Transportation System (DTS) and in turn, our strategic mobility capability. Using MEF95, we applied the funds to the following types of projects:

- $18M Military Rail Repair
- $2.6M Port & Ramp maintenance improvements
- $15.6M Runway & Ramp maintenance
- $2.7M Miscellaneous Projects (Joint Exercise, Flatracks, Hydrosurveys)
- $4.6M Military Bridge/Road Repair

Examples of the numerous infrastructure problems addressed were:

RUNWAY/RAMP

~$4.2M of repairs at Travis AFB allowed us to fix the worst pavement condition in AMC (validated by AMC Infrastructure Team). The repairs fixed broken concrete slabs and badly spalled areas that will prevent taxiways being

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closed for FOD removal and emergency repairs. These repairs will ensure that there are no delays in launching/recovering aircraft at the major west coast air cargo hub.

PORT/PIER

$300K-FSS Ramp Upgrade. This upgrade modified the portable side ramps and cantilevers on the USNS DENEBOLA and CAPELLA to permit offloading M1A1 Main Battle Tanks via the side ramp during in-stream cargo discharge operations.

MILITARY RAIL

$6.2M Rail Repairs at Military Ocean Terminal Sunny Point (MOTSU). The project installed rail bonds, missing derails, rail anchors and rebuilt deteriorated grade crossings, ballast, track surfacing gauging and lining. Improvements will ensure that predicted rail traffic and the constraints of cargo movement are met. It ensures that the existing trackage system is in compliance with railroad track standards and rail operations will not be interrupted during mobilization missions.

BRIDGE/ROAD

$3.2M Replacement of Holcomb Blvd Bridge at Camp Lejeune, NC. The project replaced the 33 ton maximum weight bridge that provides the main access to the off base road network. The old weight restriction prevented

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deployment via highway of tanks and other heavy equipment on heavy equipment transports. This improvement will allow the base to move the required 11,594 short tons of vehicles and equipment to the Sea Port of Embarkation to meet deployment requirements.

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Ammunition Handling

Question: With regard to ammunition loading and off-loading, what are some of the challenges and how are you moving to remedy this?

General Begert: The challenges are to increase use of intermodal systems; ensure interoperability between DoD and commercial assets, systems, and procedures; maximize use of commercial industry; and develop/validate wartime planning factors. The use of intermodal systems requires an investment in specialized infrastructure as well as specialized container/loading systems. The infrastructure improvements for the Tier 1 Ammunition Depots (Blue Grass, KY; Crane, IN; McAlester, OK; Tooele, UT; and Anniston, AL) are programmed under the Army Strategic Mobility Program in FY's 96-01. The improvements are estimated at $88.96M and include: ammunition containerization facilities, rail upgrades, road repairs and improvement of staging areas. The investment in specialized container/loading systems can be exemplified by the West Coast Ammunition Port where 2 rail-mounted gantry cranes will be installed at Naval Weapons Station Concord, CA and 1 rail-mounted gantry crane will be installed at Port Hadlock, WA. The rail mounted gantry crane at Port Hadlock was the number one priority for the FY96 Mobility Enhancement Fund (MEF96). MEF95 applied $17.6M towards the improvement of rail operations at Hawthorne Army Ammunition Plant, Military Ocean Terminal, Sunny Point, NC and Bangor, WA.

An enhanced Materiel Handling Equipment/Container Handling Equipment

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capability must be achieved at the Tier 1 Ammunition Depots to facilitate the flow of munitions more effectively and efficiently. This capability involves the investment in Commercial Container Handlers, Reach Stackers, 20' Chassis, Container Dollies, Yard Tractors and 6K Pound Variable Reach Forklifts. At present, this requirement is unfunded. An acquisition strategy and plan for implementation is being worked that will achieve a balanced strategic deployment capability.

To maximize the use of commercial assets we have initiated discussions with industry (sea and rail carriers) on ammunition requirements and the means to move these munitions forward into theaters of operations. This is best exemplified in the TURBO CADS exercises which are part of the Joint Container Exercise Plan, sponsored by the Joint Staff and managed by USTRANSCOM. In 1994 and 1995 we moved over 1,000 containers of ammunition through the West Coast to various points throughout the Pacific. TURBO CADS 96 will focus on using commercial intermodal transportation systems for moving surge munitions from the ammunition depots to a commercial port.

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Exercising Transportation

Question: In the fiscal year 1995 authorization, the committee included funding to exercise transportation. Was this exercise conducted and would you share the results with us?

General Begert: In 1995 USTRANSCOM sponsored two major exercises, TURBO CADS 95 (TC95) and TURBO INTERMODAL SURGE 95 (TIS95). TC95 was designed to use commercial carriers and port facilities with in-transit visibility (ITV) from origin to destination. TIS95 exercise moved Army containerized unit equipment from Fort Carson CO to Oakland CA. Once at the port the equipment was transferred onto a commercial containership. The exercise was completed with the equipment being returned to Fort Carson using commercial intermodal systems. A variety of containers and rail cars were used in the exercise.

Both exercises explored methods to utilize the commercial transportation system while satisfying military requirements. TC95 validated that containerizing ammunition was a safe and effective method of transportation. This exercise also demonstrated that commercial ports could be used to augment military ports and validated funding requirements for NAS Concord and Port Hadlock expansion. TIS95 identified user friendly containers for the Army and effective methods of loading container ships.

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European Air Base Infrastructure

Question: We understand that there is a problem with the adequacy of the European enroute infrastructure needed to support a MRC in Southwest Asia. Would please describe the extent of this problem and what are the remedies?

General Begert: We have significantly down-sized our en route structure in Europe. During the period from 1989 to 1995, the number of European locations with active AMC presence decreased 50%; AMC military personnel in Europe decreased 76%. Some of the down-sizing has been accomplished by transferring former Military Airlift Command/Air Mobility Command bases to the overseas commands, but a significant part of this down-sizing has been accomplished by closing bases, withdrawing units, or placing bases in reduced operating status. To mitigate en route support losses we have taken measures such as formation of deployable teams and support packages, but we must insure the fixed portion of the support infrastructure is accessible, capable, reliable, and can be ramped up quickly. This will require investment in remaining en route bases as well as regular exercises to ensure readiness.

A November 1995 Joint Staff sponsored en route infrastructure review highlighted deficiencies at current European en route contingency bases. Deficiencies highlighted included deteriorating or capacity limited fuel systems at Torrejon, Moron, Mildenhall, Rota, and Sigonella; runway and taxiway repairs needed at Moron; and runway and ramp expansion needed at

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Ramstein. Since the Joint Staff review, Air Mobility Command (AMC) has also conducted site surveys of European and Pacific en route bases and identified additional projects needed to ensure capability to execute current Operational Plans. Projects include cargo marshalling areas at Incirlik, passenger reception facilities at Ramstein, air freight processing facilities at Rhein Main, parking area repairs at Mildenhall, and numerous building repairs. Many of these problems have programmed fixes and we are working with the Joint Staff, the Services, Defense Logistics Agency, Defense Fuels Supply Center, and the overseas commands to insure the most critical deficiencies are addressed as soon as possible.

FISCAL YEAR 1997 HEARING ON DEPOT MAINTENANCE

HOUSE OF REPRESENTATIVES,
COMMITTEE ON NATIONAL SECURITY,
MILITARY READINESS SUBCOMMITTEE,
Washington, DC, Tuesday, April 16, 1996.

The subcommittee met, pursuant to notice, at 2:03 p.m., in room 2118, Rayburn House Office Building, Hon. Herbert H. Bateman (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, MILITARY READINESS SUBCOMMITTEE

Mr. BATEMAN. The subcommittee will come to order.

Good afternoon. Today, the Readiness Subcommittee is meeting to receive testimony concerning the current and future capabilities of the Department of Defense to provide depot-level maintenance and repair of equipment needed to maintain the readiness of our military forces. Depot maintenance is of concern to many Members of Congress, and, in fact, an informal congressional caucus has been established specifically to focus on this issue.

I am also concerned with this issue and have stated previously that I think it is essential to the national security of the United States that the Department of Defense maintain an internal capability to perform depot-level maintenance and repair of military equipment so that our military forces are able to successfully and safely meet training, operational, mobilization, and emergency requirements. There are few, if any, that will disagree with me on that point. Where the disagreement arises is who—the public sector or the private sector—should perform this work.

The public/private dispute is not new. It has been actively discussed every year since I came to the Congress. Over the years, Congress has attempted to fix this problem legislatively. One of the more widely known legislative fixes is what is known as the 60–40 rule which mandates that not more than 40 percent of funds made available to the military departments for depot-level maintenance and repair can be used for repairs by the private sector.

Another legislative remedy enacted a few years ago is the requirement for competition if any existing workload valued above $3 million is moved from a public depot.

The Department of Defense has stated that both of these provisions prohibit the orderly and cost-efficient management of their maintenance and repair needs.

In its final report provided last May, the Commission on Roles and Missions recommended that the Department of Defense essentially privatize its depot maintenance system, noting that an or-

ganic capability should be maintained only in those instances where private sector alternatives do not exist and cannot be reasonably developed.

Although Secretary of Defense William Perry has since recognized the importance of at least a limited organic core capability, the Department's initial plan to implement the Commission on Roles and Mission recommendations appeared to contradict longstanding DOD policy that maintenance of a core depot maintenance capability is necessary to support warfighting requirements.

Last year, this subcommittee initiated, and Congress enacted, a repeal to the legislative restrictions for depot-level maintenance. The repeal, however, is contingent on the Department of Defense establishing a new policy for the performance of depot-level maintenance that meets specific requirements as set forth in the repeal provision, and the subsequent enactment of additional legislation that embraces the new policy.

The Department of Defense presented its new policy on April 4. We are here today to examine this new policy and to assess whether this policy conforms with the legislative requirements.

Another related issue of concern to several members is based on the final outcome of the base realignment and closure actions of last year, which apparently allows the Department to pursue a privatization-in-place strategy at McClellan and Kelly Air Logistics Centers.

A number of concerns have been raised with this proposed action to include the existing excess capacity problems in the other DOD depots. There has been a lot of talk recently about privatization or outsourcing. The privatization-in-place proposal, however, is in a different category altogether.

Our witnesses today will be Mr. David Warren, Director of Defense Management Issues, the General Accounting Office, and the Honorable John P. White, Deputy Secretary of Defense.

Because the General Accounting Office was directed to review the new policy and report to Congress, I thought it would be appropriate for Mr. Warren to provide his views first, followed by Secretary White.

Before we begin, I would like to recognize the ranking member of the subcommittee, my colleague from Virginia, the Honorable Norman Sisisky, for any comments he may have.

STATEMENT OF HON. NORMAN SISISKY, A REPRESENTATIVE FROM VIRGINIA, RANKING MINORITY MEMBER, MILITARY READINESS SUBCOMMITTEE

Mr. SISISKY. Thank you, Mr. Chairman.

I want to thank David Warren and Secretary White, who is not here right now, for being here. I have had the opportunity to talk to Secretary White, previously, and know him as an able, articulate advocate for privatization.

Now that I have said something nice, I know he will be waiting for the other shoe to fall, and I do not want to disappoint him, even though he is not here.

I have reminded him, as well as members of this committee, that our depots are there for war. It is really that simple. They are insurance in a national emergency. Nobody I know likes to pay their

insurance bill. Only an emergency, believe me I know what I am talking about, can make you appreciate insurance.

It is like that new movie with Robert Redford and Michelle Pfeiffer. She wants to get married. Redford asks: "Why get married? I'm already with you all the time anyway." And she replies: "I want to know that you're legally required to be there."

The same goes for the depots that underwrite our national security insurance policy. And I want to know they're legally required to be there.

I had a chance to look through the three reports that I have right here, that DOD sent up last month. They sound good on the surface. And who could argue with saving money? Who could argue that all commercial activities are critical to national security?

Everyone wants to save money, and privatizing some commercial activities can save money; no question about it. What this subcommittee has done, under Chairman Bateman's leadership, is allow pilot programs to see if the savings materialize.

What we have not done is joined those who favor all privatization, or oppose any privatization. I will not deny that there are depot and public sector advocates who would privatize nothing. What worries me about DOD is that they seem like they want to privatize everything. My instincts tell me too much of a good thing too fast could be bad for achieving the efficiency and effectiveness you are striving for, and that we desperately need.

We need to make sure we understand the potential risk to military readiness posed by private sector events such as labor disputes, bankruptcy, and inflexibility on the part of the private sector to provide services needed at times and locations required by military circumstances.

As I read your report what struck me was they said so much about competition, when the practical result of your policy would virtually eliminate the public sector as a competitor.

Your report states, "Wholesale public-private competitions have been discontinued and work will be assigned to an organic depot only when private industry cannot meet requirements." At the same time, I understand your briefing will show that 31-percent savings was achieved, in part, because the Government won half of the competitions. Something there does not make sense to me. If savings are achieved through public/private competition, why eliminate the public competitor? Savings will not accrue simply because work is performed by the private sector, but they will accrue because of competition.

I am a former businessman and I know what I am talking about. Three years ago, at a BRAC hearing, I said business has a word for no competition, and the papers featured it the next day. We call it "gotcha." "We gotcha." For example, when I asked how many bids you got to clean up Savannah River from the Energy Department, the answer was one. One bid.

Now, where is the competition and where are the savings?

The first time I met Secretary White, I told him I had read about half of the Roles and Missions Report, and he said the second half was even better. And that is where it says, Implement the long-standing policy "Implement the long-standing policy—and I am

quoting now, of relying primarily on the private sector for service that need not be performed by the Government."

But where I commend Secretary White is on the next page where he said, "Outsourcing is not a universal remedy. Conditions for successful outsourcing are not always present and Government must retain certain core functions to protect the public interest."

Now that makes perfect sense, but what does not make sense is to equate commercial activities with depot maintenance, or to save money through public/private competition, and then turn around and eliminate the public sector as a competitor.

I will close by saying that I think Secretary White does have an idea that offers a real solution to sorting through some of these issues. Hidden at the back of the policy report on page 56 is the statement: "Encourage commercial firms to enter stable partnerships with organic facilities and co-use organic capabilities."

I think partnership may be the key to the whole problem. What I do not want is wholesale privatization when retail partnerships offers a better solution, genuine saving, and still pays the bill for national security insurance.

This is a complex issue. Each depot faces different challenges, and we will not be able to address every issue at the required level of detail in only one hearing. But, hopefully, your testimony will help us learn more about the ramifications of future depot-level maintenance policy decisions. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Sisisky.

We have sitting with us today members of the full committee, but not on this subcommittee, as follows. I hope I get them all right.

Congressman Hansen, Congressman Ortiz, Congressman Chambliss, and Congressman Watts. And from the general membership of the Congress we have with us Congressman Fazio, Congressman Doolittle, and I think that completes the roster of those now present, although there may be others joining us.

In the interest of time, I know that a number of members have opening statements.

Mr. SISISKY. Mr. Chairman.

Mr. BATEMAN. Yes?

Mr. SISISKY. Congressman Bishop is here also.

Mr. BATEMAN. Oh, and Congressman Bishop. Welcome. We are very bipartisan here.

I know a number of the members have opening statements they would like to make. In the interest of time, without objection, all members' opening statements will be made a part of the record.

And also, the entire written statements of our witnesses will also be made a part of the record, and they may proceed as they choose, with whatever oral presentation they choose to make.

I am now pleased to recognize and invite for his comments, Mr. David Warren of the General Accounting Office.

STATEMENT OF DAVID WARREN, DIRECTOR OF DEFENSE MANAGEMENT ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY JOHN G. BROSNAN, ASSISTANT GENERAL COUNSEL FOR NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION; AND JULIA C. DENMAN, ASSISTANT DIRECTOR FOR DEFENSE MANAGEMENT ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION

Mr. WARREN. Thank you, Mr. Chairman.

I will just summarize my remarks. I have Ms. Denman and Mr. Brosnan from our General Counsel Office with me today. They have worked extensively in these areas.

I am pleased to be here today to discuss depot maintenance issues. As requested by the committee, my testimony will focus on DOD's congressionally mandated depot maintenance policy report. I will also address issues related to the allocation of depot maintenance workload between the public and private sectors, including privatization-in-place.

In that regard, I have four key points.

First, DOD's depot maintenance policy report clearly signals a shift of workloads to the private sectors, when the readiness, sustainability, and technology risk can be overcome. For example, DOD projects a depot maintenance workload in fiscal year 2001 will be about a 50–50 split between the public and private sector. However, our work shows, when all sources of funds are considered, this split would be about 37 percent for the public sector, and 63 percent for the private sector. Further, it is important to note that the assessments called for in the policy report, the risk assessments, have not yet been completed for all workloads. So the members should understand that the data they are seeing from DOD is likely to change as those assessments are made.

Second, the policy report does provide an overall framework for managing defense depot activities. However, it is inconsistent with congressional guidance in one key area. The guidance in the 1996 Defense Authorization Act called for public depots to be able to compete with the private sector for all noncore workloads. However, DOD's policy calls for public/private competitions only when it determines there is inadequate private sector competition.

Third, while privatization of certain depot maintenance activities may be cost-effective, associated savings projections assume that there is, in fact, a competition environment.

Our work shows that currently many of DOD's depot maintenance contracts are sole-source. For example, we analyzed 240 active depot maintenance contracts, finding that 182, or 76 percent, were awarded sole-source.

Also, DOD's depots won 67 percent of nonship depot maintenance public/private competitions, and for those, 58 percent of which had zero or one offer from the private sector.

Additionally, DOD's savings projections associated with privatization are not well supported, and are based on contracting out activities other than depot maintenance.

Accordingly, privatizing public/private competition, or privatizing into a noncompetitive environment would likely not result in the expected savings and may actually be more costly.

Fourth, our preliminary analysis shows that DOD's plans to privatize-in-place and delay closure of Sacramento and San Antonio Air Logistics Center is likely to be more costly than closing military facilities, and reallocating depot maintenance workload to other centers, or private sector facilities having underutilized capacity.

We estimate savings of about $182 million annually can be achieved by transferring the centers' depot maintenance workloads to the remaining depots.

The reason these savings can be achieved is because the remaining depots have about 45 percent excess capacity. Further, our work shows that privatization-in-place at the Aerospace Guidance and Metrology Center in Newark Air Force Base, OH, will likely increase rather than decrease cost.

In conclusion, because of the latitude the policy provides, its precise effect on the factors such as public/private mix, cost, excess capacity, and readiness remain uncertain.

However, we believe the effective implementation of DOD's policy will require a further downsizing of the Department's remaining depot maintenance infrastructure, and the development of more competitive private sector markets.

We also believe that it will be important to have a process in place to monitor such factors as readiness, sustainability, and cost as the policy is implemented.

Mr. Chairman, that is a summary of my remarks, and we would be happy to answer any questions you or the other members might have.

[The prepared statement of Mr. Warren follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Military Readiness, Committee on National Security, House of Representatives

For Release on Delivery
Expected at
2:00 p.m., EDT
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DEFENSE DEPOT MAINTENANCE

Privatization and the Debate Over the Public-Private Mix

Statement of David Warren, Director, Defense Management Issues, National Security and International Affairs Division



GAO/T-NSIAD-96-146

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss defense depot maintenance issues. As requested by the Committee, my testimony will focus on our preliminary analysis of the March 1996 Department of Defense (DOD) report responding to the congressional mandate for a comprehensive depot maintenance policy. It will also address issues related to the allocation of depot maintenance workload between the public and private sectors, such as ongoing privatization initiatives, including privatization-in-place.[1] Specific issues I will address are

- - DOD's depot maintenance management model in the post cold war era,

- - the extent to which DOD's proposed depot maintenance policy is consistent with congressional direction and guidance,

- - the savings that DOD is anticipating from privatization of depot maintenance activities, and

- - the cost-effectiveness of privatization-in-place as an alternative for closing depots.

Before I discuss specifics, I'd like to summarize the key observations from our ongoing work.

First, the new model for managing depot maintenance is evolving. DOD's proposed model continues to be a mix between the public and private sectors. However, DOD's policy report signals a clear intent to shift workloads to the private sector when readiness, sustainability, and technology risks can be overcome. Such a shift, if not effectively managed, including the downsizing of remaining depot infrastructure, could exacerbate existing excess capacity problems and the inefficiencies inherent in underutilization of depot maintenance infrastructure.

Second, we have several initial observations on the DOD policy report.

- - It provides an overall framework for managing defense depot maintenance activities.

- - It sets forth a clear preference for moving workload to the private sector that will likely result in a much smaller core capability than exists today.

[1]For purposes of this testimony, privatization means assigning or transferring work to private sector contractors whose employees perform the work in a facility that is usually not owned by the federal government, although depot plant equipment may be government owned. Privatization-in-place means the work will be performed at a former DOD facility.

- - It is not consistent with congressional guidance in one key area--the use of public-private competitions for non-core workloads.

- - It provides substantial flexibility on how the policy will be implemented. As a result, the precise affects of this policy on such factors as public-private mix, cost, and excess capacity remain uncertain.

Third, privatizing depot maintenance workloads in the current environment, is not likely to achieve the savings DOD expects and may even be more costly. Saving estimates of 20 percent were based on the May 1995 report of the Commission on Roles and Missions (CORM) of the Armed Services. This report relied primarily on results from public-private competitions for commercial activities under Office of Management and Budget (OMB) Circular A-76. Our analysis showed that the public sector won about half of these competitions and that the savings were therefore the result of competition rather than privatization. Further, these competitions involved activities that more readily lend themselves to private sector competition. These include family housing, real property and vehicle maintenance, civilian personnel administration, food service, security and law enforcement, and other support services. These activities--unlike depot maintenance--generally required low-skilled labor, uncomplicated and repetitious work tasks, small capital investment to enter the market, and were common to the private sector. Also, many offerors participated in the competitions.

Recognizing the influence of competition on potential savings from privatization initiatives, we examined results from the Department's public-private competition program for depot maintenance and reviewed contracting actions for depot maintenance work by 12 DOD buying activities to determine the competitiveness of the private sector market, and where possible, to make price comparisons. Our review of the depot maintenance public-private competition program revealed that 67 percent of the 95 non-ship competitions were won by DOD depots--with winning public sector bids averaging 40 percent less than their closest private sector competitor. For 23 percent of these public-private competitions there were no private sector offerors and for another 35 percent, only one private sector offeror. Additionally, we analyzed 240 active depot maintenance contracts, finding that 182--or 76 percent--were awarded sole-source. Further, about 86 percent of the full and open competitions had 4 or less offers. Finally, our analysis of a limited number of military systems or components that are dual-sourced--that is, repaired by both a DOD depot and a private sector firm--determined that DOD depot prices were lower for 62 percent of the items. Accordingly, privatizing without public-private competition and/or privatizing into a non-competitive environment would not likely result in expected savings and may actually be more costly.

DOD has discontinued public-private competitions arguing that the depot accounting systems are inadequate to fully capture costs. We recognize that improvements must be made in this area, but implementation of improved internal controls, the use of the cost comparability handbook, and review and approval of the accounting systems and

proposals by the Defense Contract Audit Agency should provide a reasonable basis for public-private comparability.

Fourth, based on our preliminary analysis, DOD's plans to privatize-in-place and delay closure and most workforce reductions until 2001 at the Sacramento and San Antonio Air Logistics Centers is not likely to be as cost-effective as closing the military facilities and reallocating depot maintenance work to other centers or private sector facilities having underutilized capacity. DOD states that its plan reflects concerns regarding the near-term costs of the closures and the potential effects on local communities and Air Force readiness. The Base Realignment and Closure (BRAC) Commission considered these factors and concluded that large potential savings and excess capacity of the Air Force depot system necessitated the difficult decision to close these activities and consolidate work at remaining depots.

Our analysis indicates that savings of about $182 million annually can be achieved by transferring the centers' depot maintenance workloads to the remaining depots, which have about 45 percent excess capacity in fiscal year 1996 and are significantly underutilized. Further, our analysis of privatization-in-place at the Aerospace Guidance and Metrology Center at Newark Air Force Base, Ohio indicates that maintenance costs will likely increase rather than decrease as a result of this privatization initiative. Existing statutes concerning the performance of core workload and requirements for competition affect various privatization initiatives, including privatization-in-place, and it is not clear how DOD would proceed if these statutes are not repealed.

To conclude my summary, I think it is important to note that the future of the DOD depot system under the Department's new policy is uncertain. DOD depots would be used sparingly for public-private competitions since the depots could not compete for non-core workloads where "adequate private sector competition" exists even though they may offer the most cost-effective source of repair. If not effectively managed, over the long term, DOD depots could become an economic liability rather than a cost-effective partner in the total DOD industrial base. Accordingly, as workloads are moved to the private sector, further downsizing--including additional closures--will be required. With these observations in mind, depot maintenance privatization should be approached carefully, allowing for the evaluation of economic, readiness, and statutory requirements that surround individual workloads. With that as a summary, let me turn to my detailed remarks.

BACKGROUND

Depot maintenance is a key part of the total DOD logistics effort and is a vast undertaking, supporting millions of equipment items, 53,000 combat vehicles, 514,000 wheeled vehicles, 372 ships, and 17,300 aircraft of over 100 different models. Depot maintenance requires extensive shop facilities, specialized equipment, and highly skilled

technical and engineering personnel to perform major overhaul of weapon systems and equipment, to completely rebuild parts and end items, to modify systems and equipment by applying new or improved components, or to manufacture parts unavailable from the private sector. DOD's depot maintenance facilities and equipment are valued at over $50 billion. DOD annually spends about $15 billion--or about 6 percent of its $243 billion fiscal year 1996 budget--on depot maintenance activities. About $2 billion of this amount includes contractor logistics support, interim contractor support, and funds for labor associated with the installation of some major modifications and parts of software maintenance, which are contracted to the private sector using procurement, rather than operation and maintenance funds.

The DOD depot system, which is actually comprised of four systems,[2] employs about 89,000 DOD civilian personnel, ranging from laborers to highly trained technicians to engineers and top-level managers. Our recent report on closing maintenance depots provides a history of each of the services' depot systems.[3] While the number of depot personnel has been reduced by over 40 percent relative to when the DOD depot system was at its peak in 1987, depot facilities and equipment have not been similarly downsized. At the time of the 1995 BRAC process, the DOD depot system had 40 percent excess capacity, based on an analysis of maximum potential capacity for a 5-day week, one 8-hour-per-day shift operation. The Air Force, which had not closed a U.S. depot since the 1960s, had 45 percent excess capacity. Currently, there are 29 major DOD depot maintenance facilities--Army depots, Air Force logistics centers, naval aviation depots, naval shipyards, naval warfare centers, and Marine Corps logistics bases--that perform depot maintenance work--of which 10 are in the process of being closed as DOD maintenance depots as a result of BRAC decisions.[4] Additionally, DOD uses over 1,300 U.S. and foreign commercial firms to support its depot maintenance requirements.

Statutes and regulations influence the mix of maintenance work performed by the public and private sectors. For example, as early as 1974, legislation prescribed a specific dollar value mix for public and private sector performance of alteration, overhaul, and

[2]DOD Directive 5100.1, "Functions of the Department of Defense and Its Major Components," assigns the Army, Navy, Air Force, and Marine Corps, under their respective Secretaries, the responsibility for "providing logistics support for Service forces, including procurement, distribution, supply, equipment, and maintenance, unless otherwise directed by the Secretary of Defense." To meet the responsibility to maintain its equipment, each service operates a depot maintenance system, with the Navy system including three different types of depots, excluding the Marine Corps.

[3]Closing Maintenance Depots: Savings, Workload, and Redistribution Issues (GAO/NSIAD-96-29, March 4, 1996).

[4]There are also 16 Army and 9 Navy facilities in the continental United States for weapons and munitions depot maintenance.

repair work for naval vessels. Since then, workload allocation decisions have been influenced by percentage goals found in DOD policy guidance and legislation.

DOD Directive 4151.1, "Use of Contractor and DOD Resources for Maintenance of Materiel," directed the services to plan for not more than 70 percent of their depot maintenance to be conducted in DOD depots to maintain a private sector industrial base. The most basic of the legislative mandates governing the performance of depot-level workloads is 10 U.S.C. 2464, which provides for a "core" logistics capability to be identified by the Secretary of Defense and maintained by DOD unless the Secretary waives DOD performance as not required for national defense. Traditionally, core was defined as the capability, including personnel, equipment, and facilities, to ensure timely response to a mobilization, national contingency, or other emergency requirement. The composition and size of this core capability are at the heart of the depot maintenance public-private mix debate.

Other statutes affect the extent to which depot-level workloads can be converted to private sector performance. Two of the most significant are 10 U.S.C. 2466 and 10 U.S.C. 2469. The first prohibits the use of more than 40 percent of the funds made available in a fiscal year for depot-level maintenance or repair for private sector performance: the so-called "60/40" rule. The second provides that DOD-performed depot maintenance and repair workloads valued at not less than $3 million cannot be changed to performance by another DOD activity without the use of "merit-based selection procedures for competitions" among all DOD depots and that such workloads cannot be changed to contractor performance without the use of "competitive procedures for competitions among private and public sector entities." In recent years DOD has sought relief from both these two statutes.

DOD DEPOTS WILL HAVE A FUTURE ROLE BUT IT WILL BE SMALLER

DOD and the Congress are defining the role of DOD depots in the post cold war era, much in the same way the roles of U.S. war-fighting forces are being reshaped. The new model for managing depot maintenance has not yet emerged. However, given DOD's depot maintenance policy report, the model apparently will be a mix between public and private sector capabilities, but with a clear shift toward greater reliance on the private sector. DOD's March 1996 Depot-Level Maintenance and Repair Workload Report projected a significant increase in the depot work that will be privatized. Further, since the services periodically reevaluate their core workload requirements, it is unknown how much more of their current work will be determined to be non-core and privatized. Unless effectively managed, including downsizing of remaining depot infrastructure, a major shift in depot workloads to the private sector would exacerbate existing excess capacity in the DOD depot maintenance system.

Historically, depot maintenance on wartime critical DOD systems has been largely performed in DOD depots. Based on both cost and risk factors, the general DOD policy was to rely on DOD depots to provide a cost-effective and reliable source of support for wartime readiness and sustainability. With some exceptions, peacetime maintenance of weapon systems with wartime taskings was performed in DOD depots. This peacetime workload constituted depot maintenance core. Core was determined by quantifying the depot work that would be generated under war scenarios and then computing the amount of peacetime work needed to employ the number of people necessary to support the anticipated wartime surge. Peacetime workload was composed of a mix of high and low-surge items allowing employees to transfer from low surge workload to high surge workload during war. While there were always a number of potential war scenarios, the depots were sized to support a sustained global war.

During the cold war, there was not much pressure to move work from DOD depots to the private sector. Military leaders expressed a clear preference for retaining much of their work in DOD depots, which were highly flexible and responsive to changing military requirements and priorities. The quality of the DOD depots was high and users were generally well-satisfied with the depots' work. Further, the threat of a global war and the resulting stress on the logistics system were constant reminders of the need to maintain the flexibility and responsiveness the depot system provided. Historically, DOD has reported that about 70 percent of its depot maintenance work was performed in DOD depots.

In our 1994 testimony before the Readiness Subcommittee of the House Armed Services Committee, we stated that the private sector more likely receives about 50 percent of the DOD depot maintenance budget. We noted that a portion of the funds expended on the maintenance workload assigned to the public sector ultimately was used for private sector contracts for parts and materiel, maintenance and engineering services, and other goods and services. Additionally, some types of depot maintenance activities, such as interim contractor support and contractor logistics support, were not included in previously reported statistics.[5] Our review of data in DOD's March 1996 workload report indicates that by fiscal year 1997, the mix will be about 64 percent in the public sector and 36 percent in the private sector. Further analysis indicates that the data does not include funds reported by the services for interim contractor support, contractor logistics support, or goods and services that the DOD depots ultimately buy from the private sector. Including these funds would change the mix to about 53 percent in the public sector and 47 in the private sector. While the Department's projection for the public-private mix in 2001 is 50 percent in each sector, our analysis indicates that it is actually about 37 percent in the public sector and 63 in the private sector. Further, since the services are

[5]Depot Maintenance: Issues in Allocating Workload Between the Public and Private Sectors,(GAO/T-NSIAD-94-161, Apr. 12, 1994)

conducting risk analyses to further define their minimum core capability, the DOD depots' share of funding could be reduced even further.

With the end of the cold war and the subsequent declines in defense spending, there are increased pressures to privatize more depot maintenance work. Those declines affected force structure and the public and private activities supporting force structure. As acquisition programs began to decline, a growing concern arose over the impact on the defense industrial base. Particular concern focused on how that industrial base could be maintained without the large development and production programs of the past, and attention began to shift to DOD depot workloads as a potential source of work to keep the industrial base viable.

Advocates of more private sector involvement argue that a shift toward the private sector would not only help keep the private sector production base healthy during a period of reduced weapon procurement but also could result in lower costs, since the private sector could provide depot maintenance at lower cost than the public sector. Proponents of the DOD depot system believe the DOD depots have provided a quality, responsive, and economical source of repair. They note that DOD maintenance policy for many years has supported the outsourcing of depot maintenance work when it was determined to be cost-effective to do so. Further, they contend there are substantial differences between developing and producing new systems and maintaining fielded ones and that the dollars spent on maintenance, while not small, cannot fill the void created by declining production dollars.

Section 311 of the National Defense Authorization Act for Fiscal Year 1996 is an indication of congressional intent regarding the continued need for DOD depots:

> It is the sense of Congress that there is a compelling need for the Department of Defense to articulate known and anticipated core maintenance and repair requirements, to organize the resources of the Department of Defense to meet those requirements economically and efficiently, and to determine what work should be performed by the private sector and how such work should be managed.

Section 311 also directed the Secretary of Defense to develop a comprehensive policy on the performance of depot-level maintenance and repair for the Department of Defense that maintains the core capability described in 10, U.S.C. 2464 and report to the Senate Committee on Armed Services and House Committee on National Security. The section further directed that in developing the policy, the Secretary should include certain elements such as interservicing, environmental liability, and exchange of technical data.

The Congress supports preserving a DOD depot maintenance system to support core requirements. With no additional BRACs scheduled, the Department was charged with developing a depot maintenance policy that provides adequate workloads to ensure cost efficiency and technical proficiency in time of peace.

PRELIMINARY OBSERVATIONS REGARDING
DOD'S DEPOT MAINTENANCE POLICY REPORT

We are analyzing DOD's depot maintenance policy and workload analysis reports, as required by Section 311, and will be reporting our findings by May 18, 1996. However, as requested, I am providing our observations to date on the policy report. First, it provides an overall framework for managing DOD depot maintenance activities. Second, it sets forth a clear preference for moving workload to the private sector, which will likely result in a much smaller core capability than exists today. Third, it is not consistent with congressional guidance in one key area--the use of public-private competitions. Fourth, the policy provides substantial latitude in implementation. As a result, the precise affect of this policy on such factors as public-private mix, cost, and excess capacity remain uncertain.

Policy Report Provides Depot Maintenance Framework

In response to the congressional requirement for a comprehensive statement of depot maintenance policy, DOD provided an overall framework for managing DOD depot maintenance activities. The policy report reiterates some past policies and identifies some new initiatives for depot-level maintenance. It references other directives, publications, memorandums, and decisions and notes that DOD plans to develop an updated single publication with applicable maintenance policy guidance. Our assessment is based on observations to date about the policy report and other related documents.

Policy Report Sets Forth a Preference for Privatization

The policy report clearly states that the Department has a preference for privatizing maintenance support for new systems and for outsourcing non-core workload. It represents a fundamental shift in the historical policy of relying on DOD depots to provide for the readiness and sustainment of wartime tasked weapon systems.

Section 311 of the authorization act states that the DOD policy should provide that core depot-level maintenance and repair capabilities are performed in facilities owned and operated by the United States. It also states that core capabilities include sufficient skilled personnel, equipment, and facilities that are of the proper size to ensure a ready and controlled source of technical competence, and repair and maintenance capability necessary to meet the requirements of the National Military Strategy and other requirements, and to provide for rapid augmentation in time of emergency.

Core, as set forth in the policy and workload reports, no longer means that wartime work will be performed primarily by DOD depots. DOD's core concept is for its depots to perform maintenance requirements that the service secretaries identify as too risky for the

private sector to perform. In determining core workloads, the DOD policy calls for maintaining only "minimum capability"--which does not necessarily mean an actual workload for a depot. What once was calculated as core is now called pre-risk core. For those mission essential workloads that historically would dictate retention of a core capability, the services will conduct a risk assessment[6] to determine if the work should be made available for competition within the private sector. The policy guidance provides some limited criteria for performing a risk assessment, but DOD has not yet developed guidelines for making those assessments in a consistent manner. It is unclear the extent measured criteria or subjective judgement will be used for such assessments.

In a similar vein, DOD's policy on depot maintenance seeks to severely limit the use of DOD depots for new weapon systems. Section 311 provides for the performance of maintenance and repair for any new weapon systems defined as core in facilities owned and operated by the United States. On the other hand, the Department reported to the Congress in August 1995 that it intended to privatize depot maintenance for new systems and reported in its January 1996 depot maintenance privatization initiative that it intended to freeze the transition of new workloads to DOD depots. The policy report and other recently issued DOD guidance, such as DOD Instruction 5000.2, also show that DOD's maintenance concept for new and modified systems will minimize the use of DOD depots.

This preference, in combination with DOD's minimum core concept and limited public-private competitions, if not effectively managed--including reducing infrastructure and developing competitive markets--would likely result, over the long term, in DOD depots becoming an economic liability rather than a cost-effective partner in the total DOD industrial base. The DOD policy report states that the Department will provide for cost efficiency, sufficient workload, and technical proficiency in its depots. However, accomplishing this objective will be difficult given that the depots already are underutilized and the policy providing for additional outsourcing would exacerbate that situation, unless there are additional depot closures. Further, the report does not provide a clear indication, aside from recognizing ongoing BRAC actions, on how the Department intends to downsize to minimum core.

Policy Report Is Inconsistent With Congressional Direction Regarding the Use of Public-Private Competition

While we are in the process of reviewing the policy report for consistency with congressional direction and guidance, our observation to date is that the report is inconsistent in one key area--the use of public-private competitions for allocating non-core depot maintenance workloads.

[6]DOD's policy report requires three risks to be assessed: readiness, sustainability, and technology. It is unclear, however, what procedures should be used for making these assessments.

Section 311(d)(5) of the act provides that in cases of workload in excess of the workload to be performed by DOD depots, DOD's policy should provide for competition "between public and private entities when there is sufficient potential for realizing cost savings based upon adequate private-sector competition and technical capabilities." DOD's report provides a policy that is inconsistent with this instruction. According to DOD, it will engage in public-private competition for workloads in excess of core only when it determines "there is not adequate competition from private sector firms alone." The report did not clarify what would constitute adequate competition. Under this policy, DOD depots would be used sparingly for public-private competitions and DOD depots cannot compete for all non-core workloads, where adequate private sector competition exists, even though the DOD depots could offer the most cost-effective source of repair.

We have reported that public-private depot maintenance competitions can be a beneficial tool for determining the most optimum cost-effective source of repair for non-core workloads. As noted in our recent reports on the Navy's depot maintenance public-private competition programs for ships and aviation, we found that these competitions generally resulted in savings and benefits and provided incentives for DOD depot officials to reengineer maintenance processes and procedures, to develop more cost-effective in-house capability and to ensure that potential outsourcing to the private sector is more cost effective than performing the work in DOD depots.[7]

We recognize that DOD's public-private depot maintenance competition program raised concerns about the reliability of DOD's depot maintenance data and the adequacy of its depot maintenance management information systems. These deficiencies are not insurmountable. As we noted in prior reports, many of the problems were internal control deficiencies that can be addressed with adequate top-level management attention. We also noted that some corrective actions have already been undertaken and additional improvements can be made. Further, we recommended that the Defense Contract Audit Agency be used to certify internal controls and accounting policies and procedures of DOD depots to assure they are adequate for identifying, allocating, and tracking costs of depot maintenance programs and to ensure proper costs are identified and considered as part of the bids by DOD depots. DOD has stated that it plans to use the Defense Finance and Accounting Service to review and certify the accounting systems of DOD depots.

Policy Provides Wide Latitude For Implementation

The policy report provides wide implementation latitude in a number of key areas. For example, it provides for a DOD depot capability, but the ultimate extent of such capability,

[7]Navy Maintenance: Assessment of the Public-Private Competition Program for Aviation Maintenance (GAO/NSIAD-96-30, Jan.22, 1996) and Navy Maintenance: Assessment of the Public and Private Shipyard Competition Program (GAO/NSIAD-94-184, May 25, 1994).

and hence DOD depot requirements, could be substantially reduced depending on future core workload assessments of privatization, readiness, sustainability, and technology risks.

Depending on implementation, the policy's preference for privatization and the lack of a clear and consistent methodology for determining risks will likely lead to significant amounts of workload previously designated as core being reclassified as non-core and privatized. For example, with respect to the Aerospace Guidance and Metrology Center, the Air Force is privatizing depot maintenance operations involving 1.7 million direct labor hours of work--100 percent of which had been previously defined as core--stating that because the workload is being privatized-in-place, the risk is manageable. It is unclear how risky that privatization may turn out to be, particularly in light of the contractor's interest in divesting itself of its defense business. However, a similar rationale is being used to support other in-place privatizations. With this predilection, it is likely that future core will represent something far different than it did in the past. For example, DOD's March 1996 workload report noted that core would ensure "that the Air Force establishes and retains the capabilities needed to assure competence in overseeing depot maintenance production that has both public and private sector elements"--a significantly different mission than that historically envisioned for DOD's core capability. Further, DOD's March 1996 report to Congress, Improving the Edge Through Outsourcing, included intermediate maintenance of DOD weapons and equipment--another function traditionally considered core--as one which the Department will now consider privatizing.

The policy also provides wide latitude in several areas where the decision for determining public or private sector source of repair is based on an assessment of what is "economical" or "efficient." For example, the policy states that non-core workloads be made available for only private sector competition when it is determined that the private sector can provide the required capability with acceptable risks, reliability, and efficiency. This efficiency requirement does not require the inclusion of the public sector to ensure that privatization is the most cost-effective option.

DOD'S ASSUMPTION THAT DEPOT MAINTENANCE PRIVATIZATION WILL ACHIEVE 20-PERCENT SAVINGS IS UNSUPPORTED

The underlying assumption behind DOD's depot maintenance privatization initiative is the expectation that savings of 20 percent will be achieved and these savings will be made available to support the services' modernization programs. Our analysis indicates that this assumption is unsupported. The data cited by Department officials to support this savings assumption is the Report of the Commission on Roles and Missions of the Armed Forces.

In May 1995 the CORM concluded that 20 percent savings could be achieved by the privatization of various commercial activities and recommended that DOD transfer

essentially all depot maintenance to the private sector. The Commission rejected the notion of core and recommended that DOD (1) outsource all new support requirements, particularly the depot-level logistics support of new and future weapon systems and (2) establish a time-phased plan to privatize essentially all existing depot-level maintenance. In its August 1995 response to the Congress on the CORM report, DOD noted that the Department agreed with the Commission's recommendation to outsource a significant portion of its depot maintenance work, including depot maintenance activities for new systems. However, the DOD response noted that DOD must retain a limited core depot maintenance capability to meet essential wartime surge demands, promote competition, and sustain institutional expertise.

We found that the Commission's assumptions on savings from privatization generally were based on reports of projected savings from public-private competitions for various commercial activities as part of the implementation of OMB Circular A-76. These commercial activities reviews included various base operating support functions, such as family housing, real property and vehicle maintenance, civilian personnel administration, food service, security and law enforcement, and other support services. While these activities were varied in nature, they had similarities in that they generally involved low-skilled labor; required little capital investment; generally involved routine, repetitious tasks that could readily be identified in a statement-of-work; and had many private sector offerors who were interested and had the capability to perform the work.

Our review of A-76 competitions and public-private competitions for depot-level maintenance found that the conditions under which A-76 competitions resulted in lower private sector prices were often not present or applicable to depot maintenance. Specifically, we found that:

-- Reengineered government activities won about half of the A-76 competitions because they could provide the work cheaper. Our work shows that for public-private competitions involving depot maintenance activities, a program authorized by the Congress and implemented independently from A-76, DOD depots won 67 percent of the non-ship competitions. Public-private competitions for ships provided a unique situation wherein private sector offerors could bid marginal or incremental costs while DOD depots were required to bid full costs--a condition which, in concert with the more competitive nature of the ship repair market, led to the public shipyards not being competitive.[8]

-- When the private sector won A-76 competitions, savings were significantly higher than when the government function was performed by military personnel. The additional costs of military pay and benefits when coupled with productivity losses incurred for

[8] Navy Maintenance: Assessment of the Public and Private Shipyard Competition Program (GAO/NSIAD-94-184, May 25, 1994).

additional duties resulted in decreased competitiveness of the military personnel assigned to these duties. Depot maintenance, on the other hand, is performed almost exclusively with civilian personnel.

-- The A-76 competitions did not involve activities comparable to depot maintenance--which is far more complex, less repetitious, and involves many unique systems not found in the private sector.

-- Problems associated with statements of work in A-76 competitions resulted in cost increases for privatized work because of contract modifications to more explicitly define required work--a condition we also identified in our review of DOD's public-private program for depot maintenance. The impact of this cost growth for depot maintenance competitions can be illustrated by submarine repair competitions. While the average award amount for private shipyards was 16 percent less than that for competitions won by the public sector, greater cost growth in the private sector resulted in the average actual costs being about the same.

-- While the A-76 commercial activity competitions resulted in savings, the savings were not readily quantifiable, did not consider the cost of the competition or the administration of the contracts, and for those competitions that were audited, savings were often less than projected. We had similar findings in our review of public-private competitions for depot maintenance. Additionally, we found that for the non-ship depot maintenance competitions won by a DOD depot, the DOD depots' bids averaged 40 percent less than the lowest private sector offeror. Where we observed cost growth in the limited number of depot competitions we analyzed, the growth was not sufficient to result in the DOD depots' costs exceeding the bid of the lowest private sector offeror.

-- The A-76 competitions were conducted in a highly competitive private sector market--frequently involving 4 or more offerors, with 10 percent of the competitions involving 11 or more offerors. Savings were much higher for those A-76 competitions won by the private sector where there were 5 or more private sector offerors. Our review of DOD's 95 non-ship depot maintenance public-private competitions showed the private sector market to be significantly less competitive. Twenty-two of the competitions had no private offerors and 33 had only one. Only 28 of these competitions had three or more offerors, while the number of offerors averaged less than two per competition.

Current Depot Maintenance Market
Is Not Highly Competitive

Recognizing the influence of competition on achieving savings from privatization, we analyzed the competitiveness of DOD's non-ship depot maintenance repair contracts. We asked 12 DOD buying commands to identify depot maintenance contracts that were open during 1995. They identified 8,452 contracts valued at $7.3 billion and, based on

high dollar value, we selected 240 contracts valued at $4.3 billion to analyze the commands' use of competitive procedures for the contracted workloads.

The following table shows the results of our analysis.

Table 1: Procedures for Contract Award

Dollars in billions

	Competition							
	Full and Open		Limited[a]		Sole Source		Total Awards	
Command	Number	Value	Number	Value	Number	Value	Number	Value
Army	10	$.578	3	$.017	43	$.538	56	$1.133
Air Force	37	1.348	1	.100	60	.900	98	2.348
Navy	2	.286	5	.048	79	.518	86	.852
Total	49	$2.212	9	$.165	182	$1.956	240	$4.333

[a]Limited competition refers to those which are conducted using other than full and open competition.

As shown, the 12 buying commands awarded (1) 182, or 76 percent, of the contracts through sole-source negotiation; (2) 49, or 20 percent, through full and open competition, and (3) 9, or 4 percent, by limited competition. The 49 fully competitive awards accounted for about 51 percent of the total dollar value while the 182 sole-source contracts accounted for about 45 percent of the dollar value.

In reviewing the number of offerors for the 49 contracts valued at $2.2 billion that were awarded through full and open competition, we found that the commands averaged 3.6 offers for the 49 contracts--ranging from a low of only 2 offers to a high of 10. For 30 of the 49 contracts--about 86 percent of the $2.2 billion--the number of offers was 4 or less. Five contracts valued at $525.8 million had only two offers, while only 19 contracts valued at $309.4 million had five or more offers.

We also found that a large portion of the dollar value of the contracts went to a relatively small number of contractors. Although the total number of contractors involved in the 240 contracts was 71, 13 of these contractors had most of the workload, about 76 percent of the $4.3 billion. Three of these 13 contractors had workload valued at $1.3 billion, about 30 percent of the $4.3 billion.

Our analysis of depot maintenance contracts showed that the private sector market was more competitive for certain types of systems and equipment than for others. For example, awards for repair of ground vehicles, trucks, airframes, engines, and other items were more often competitive while sole-source contracts were prevalent for fire control

systems, communications and radar equipment, electronic components, and other components. We found that the buying commands sometimes used both DOD depots and private sector sources for repair of a limited number of items. To make price comparisons, we looked at 414 items that buying activities identified as being maintained in both sectors. For 62 percent of the items, the contract price was higher than the price for the same item repaired in a DOD depot.

We also analyzed the impact of other conditions relevant to creating a competitive environment. Regarding the ability to clearly define the service to be provided, the buying commands reported that depot maintenance activities present a difficult challenge. For much of the depot maintenance work, specific tasks that must be done, spare and repair parts that will be required, and the type and skill-level of the labor required cannot be identified until the equipment or component is inducted into the repair facility for inspection and repair. Our review of depot maintenance contracts showed the difficulty in constraining cost growth in this environment--particularly when cost-type contracts are used. It also showed the large costs normally associated with drafting statements of work, conducting the competitions, and administering the contracts. At one buying activity which obligates about $180 million per year for depot maintenance contracts, we found sole-source contracts were used 100 percent of the time--many of which were also cost reimbursable. Officials said they did not have the manpower, technical data, technical manpower, or contracting skills to use competitive contracting. Additionally, officials noted that the process for qualifying repair sources is difficult and time-consuming.

PRIVATIZATION-IN-PLACE PLANS DO NOT APPEAR TO OPTIMIZE SAVINGS

There have been a number of recent initiatives to privatize depots recommended for closure or realignment by BRAC. The most prominent among these so-called "in-place" privatization initiatives involve the Aerospace Guidance and Metrology Center, a depot recommended for closure by the 1993 BRAC Commission and located on Newark Air Force Base, Ohio, and the Sacramento and San Antonio Air Logistics Centers, which were recommended for closure by the 1995 BRAC Commission and are located on McClellan Air Force Base, California, and Kelly Air Force Base, Texas, respectively.

We previously reported that, although it may be several years before the total cost of privatizing the Aerospace Guidance and Metrology Center's depot maintenance workload can be identified, our preliminary analysis indicated that this privatization will likely increase, rather than decrease, depot maintenance costs.[9] In addition, our recent analysis of 254 contract items disclosed that (1) unit costs were higher after privatization

[9] Aerospace Guidance and Metrology Center: Cost Growth and Other Factors Affect Closure and Privatization (GAO/NSIAD-95-60, December 9, 1994).

for 201, or about 79 percent, of the items and (2) overall, there was a net cost increase of $6.01 million for the 254 items.[10] Further, although the Air Force is projecting annual savings of $5 million for the last 4 years of the 5-year contract, we found that the Air Force did not include all relevant costs in its analysis. For example, our analysis showed that the Air Force's estimated prices for eight contract items did not include such items as material costs totalling $15 million.

We also reported on the potential impact of privatizing the San Antonio Air Logistics Center's engine workload in place rather than transferring the work to the Oklahoma City Air Logistics Center.[11] Specifically, we reported that consolidating San Antonio's engine workload with Oklahoma City's engine workload would reduce Oklahoma City's overhead rate for engine work by as much as $10 an hour and would result in an estimated annual savings of $76 million. As requested by Chairman Spence, we are conducting a more thorough review of the Department's privatization-in-place initiatives, particularly those underway at San Antonio and Sacramento. Our preliminary observations on these initiatives follow.

Privatization-In-Place at Sacramento and San Antonio Will Be Costly

The BRAC Commission's July 1995 report to the President noted that the decision to close the Sacramento and San Antonio Air Logistics Centers was a difficult one to make, but was necessary given the Air Force's significant excess depot capacity and limited defense resources. The Commission report also concluded that these actions should save about $151.3 million over the 6-year implementation period and $3.5 billion over 20 years. Since this announcement, DOD has moved forward with its privatization efforts at these locations, including the announcement that contracts for five prototype workloads are to be awarded by the close of 1997.

When the President forwarded the BRAC Commission recommendations to the Congress, he stated that his intent was to privatize the work in place or in the local communities in order to (1) avoid the immediate costs and disruption in readiness that would result from the relocation of the centers' missions, (2) mitigate the impact on the local communities, and (3) preserve important defense work forces. The administration also decided to delay the centers' closures until the year 2001 to further mitigate the adverse impact on the local communities.

Our analysis indicates that delaying the centers' closures until 2001 could increase net costs during the 6-year BRAC implementation period by hundreds of millions of dollars,

[10]This is a conservative estimate because it ignores contractor profits, lease costs, and other privatization costs that have not yet been determined.

[11]Depot Maintenance: Opportunities to Privatize Repair of Military Engines, (GAO/NSIAD-96-33, March 5, 1996).

primarily because it would limit the Air Force's ability to achieve recurring savings to offset expected closure costs. Additionally, although the closures' potential impact on local communities and readiness is a valid concern, actions can be taken to limit the impact. For example, the Sacramento community's successful conversion of the Sacramento Army Depot to private use has demonstrated that this conversion, although difficult, can be accomplished. Further, according to Navy depot maintenance officials, on-going efforts to quickly close three aviation depots has had no significant impact on readiness.

Our preliminary analysis also indicates that privatizing the two centers' depot maintenance workloads in place is likely to be a more costly alternative than transferring the workloads to the three remaining centers. One reason for this is that there are substantial costs associated with privatization-in-place that do not apply to DOD maintenance depots. For example, our analysis indicates that unique requirements such as the cost of proprietary data rights, contractor profits, and contractor oversight could add 20 percent, or more, to the cost of performing the work. Further, the cost plus contract that will likely be used is not conducive to generating significant private sector economies, a situation already unfolding at the Aerospace Guidance and Metrology Center.

More significantly, our analysis indicates that privatization-in-place eliminates the opportunity to consolidate workloads at the remaining centers and to, thereby, achieve substantial "economy of scale" savings and other efficiencies. The Air Force's five air logistics centers currently have approximately 57.3 million direct labor hours of depot maintenance capacity to accomplish about 29.3 million hours of workload (projected fiscal year 1999)--leaving a projected excess capacity of 49 percent in 1999. The BRAC decision to close the San Antonio and Sacramento Air Logistics Centers provides the Air Force the opportunity to redistribute workload to the remaining three air logistics centers, thereby reducing excess capacity within its depot system to about 8 percent. Our analysis indicates that redistributing 8.2 million hours of work from Sacramento and San Antonio to the remaining centers would allow the Air Force to achieve annual savings of as much as $182 million.[12] According to financial management officials at the receiving air logistics centers, one-time workload transition costs of about $475 million would be required to absorb the additional workloads, indicating that net savings would occur within 2-1/2 years of the transition completion.[13] On the other hand, if the remaining centers do not receive additional workload, they will continue to operate with significant excess

[12]Because of numerous uncertainties, it is impossible to precisely estimate the potential savings. For example, it is uncertain where some workloads would be transferred. Further, for systems such as the C5 aircraft at San Antonio, which could have relocation costs of about $100 million, privatization--either in-place or at contractor facilities--may be the most cost-effective alternative.

[13] This amount includes $318 million for relocating or separating center personnel, most of which would also be incurred under privatization-in-place.

capacity, becoming more and more inefficient and more and more expensive as their workloads continue to dwindle due to downsizing and privatization initiatives.

Finally, various statutory restrictions may affect the extent to which depot-level workloads can be converted to private-sector performance--through privatization-in-place or otherwise--including 10 U.S.C 2464, 10 U.S.C. 2466, and 10 U.S.C. 2469. While each of these statutes has some impact on the allocation of DOD's depot-level workload, 10 U.S.C. 2469 constitutes the primary impediment to privatization in the absence of a public-private competition. Competition requirements of 10 U.S.C. 2469 have broad application to all changes to the depot-level workload valued at $3 million or more currently performed at DOD installations, including Kelly and McClellan. The statute does not provide any exemptions from its competition requirements and, unlike most of the other laws governing depot maintenance, does not contain a waiver provision. Further, there is nothing in the Defense Base Closure and Realignment Act of 1990--the authority for the BRAC recommendations--that, in our view, would permit the implementation of a recommendation involving privatization outside of the competition requirements of 10 U.S.C. 2469.

The determination of whether any single conversion to private-sector performance conforms to the requirements of 10 U.S.C. 2469 depends upon the facts applicable to the particular conversion. We do not have DOD's position regarding how it plans to comply with the statutory restrictions.[14] While DOD has stated that it will structure these conversions to comply with existing statutory restrictions, details of the Department's privatization plans for Kelly and McClellan are still evolving. Further, "in-place" privatizations at Newark, Kelly, and McClellan are now the subject of litigation. In March 1996, the American Federation of Government Employees filed a lawsuit challenging these privatizations initiatives, contending that they violate the public-private competition requirements of 10 U.S.C. 2469 and other depot maintenance statutes.[15]

CONCLUSION

While our analysis of DOD's depot policy report continues, we believe there are several points the Congress needs to consider as it contemplates the repeal of 10 U.S.C. 2464 and 10 U.S.C. 2469--two statutes that influence the allocation of depot maintenance workload between the public and private sectors.

First, the policy does not provide for participation of DOD depots in depot maintenance competitions for non-core workload as directed by the Congress. Second, since the

[14] We have, by letter dated January 3, 1996, requested that DOD provide us with its plans for how it will comply with existing statutory restrictions in its privatization initiatives at various locations, including Kelly and McClellan. DOD has yet to respond to our request.

[15]AFGE v. Clinton, No. C2 96-0283 (S.D. Ohio filed Mar. 18, 1996).

policy provides wide latitude during implementation, likely outcomes of the policy change are difficult to predict. Third, cost savings are likely achievable from some depot privatization, but not in the percentages and scope predicted by the CORM. Fourth, privatization-in-place does not appear to be cost-effective given the excess capacity in DOD's depot maintenance system.

Given these considerations, the Congress needs to assure itself that any new policy has the intended required features and that a process is in place to monitor readiness, sustainability, and cost considerations. Further, the effective implementation of the new policy will require a further downsizing of the Department's remaining depot maintenance infrastructure and the development of more competitive private sector markets.

Thank you Mr. Chairman that completes my statement. I would be happy to answer questions at this time.

(709182)

Mr. BATEMAN. Thank you very much, Mr. Warren. We are pleased to have your input, and thank you for bringing with you Mr. Brosnan and Ms. Denman.

The Chair is going to exercise his prerogative and not ask any questions at this point in order to give other members an opportunity because I anticipate I will have lots of questions for lots of people, including you all, the Secretary, and many others, before we have finally wrestled this problem to some conclusion.

With that, I will recognize the ranking member, Mr. Sisisky, and thereafter, in the order of their appearance, alternating from my right to left.

Mr. SISISKY. Mr. Chairman, I will do the same thing as you did, since we had the opening statement, and allow other members to ask questions first.

Mr. BATEMAN. OK. The first to be recognized in that event is Mr. Cunningham.

Mr. CUNNINGHAM. Thank you, Mr. Chairman.

I attribute to the liberal education failure of math, to find out those people who are saying there is actually a savings in total privatization versus what you are saying, is that it costs us a great deal of money to privatize in the case of Sacramento and Texas.

I am from California, but I also know we went through the BRAC process, and the reason that we closed those two bases is that the Navy had six depots and the Air Force had six. The Navy shut down three in the first BRAC, the Air Force did not do any, and they figured there was excess capacity, just as you have stated, and the savings—we are combining those.

I also realized the politics that is involved in this as far as California is concerned with the administration, and that is upsetting, especially from those Members who continually cut defense, do everything they can to dismantle defense, and then come in and cry because their base is being closed down, in a political endeavor during an election year.

Can you expound further—and I will give you a little bit of time—and I do believe there is a place for some privatization, and the problems with identifying core. I cannot even get the military to totally define core, and I understand that problem. But can you expound a little more on why, other than just excess capacity, there is greater savings not to privatize Sacramento and Texas?

Mr. WARREN. The principal savings do come from the excess capacity issue. As we did our analysis, that is really what drove the ultimate—the $182 million of cost savings.

Mr. CUNNINGHAM. Are there any additional reasons why——

Ms. DENMAN. Yes, sir. There are also savings that can be achieved by moving workload from depots with lower productivity to those with higher productivity. Benefits to be saved from moving workload depots with areas that have higher labor rates, to depots that have lower labor rates because of the communities in which they are located.

The excess capacity, however, at 45 percent in the Air Force, is one of the key avenues for savings. The other area for savings is when you close down an installation, as California did at Alameda, close down a base entirely, you can reduce the operating costs that are incurred for the Department of Defense for that location.

For example, at Sacramento, it is $230 million annually. When you privatize this workload, one can expect to achieve some savings by closing down buildings and possibly moving in workload from the private sector.

However, most of your expenses such as the utility bills, which are extremely high for industrial facilities such as these depots, will continue, and basically as they are doing at AGMC, must be transferred to the Government, possibly on a cost-plus environment.

So essentially, the Government must continue to pay for that infrastructure even though it has been privatized.

Mr. CUNNINGHAM. Let me take the other side as if I was arguing from the other side. We have found that in many cases BRAC COBRA data has been inaccurate, and there has not been savings from closing down our bases because of environmental cleanup, because the community cannot use it, and so on.

In the cases of Sacramento and Texas, to the best of your knowledge, are those savings intact that have been put forward?

Mr. WARREN. The BRAC savings?

Mr. CUNNINGHAM. Yes, sir.

Mr. WARREN. We would think they are, yes.

Ms. DENMAN. Under a privatization-in-place initiative?

Mr. CUNNINGHAM. We say there are savings. When you close down these bases in BRAC, we say there is this much savings, which you just stated.

Mr. WARREN. You mean if the environmental cost——

Mr. CUNNINGHAM. Are you relatively sure that we actually have those savings, that there is not additional cost because of shutdown, environmental cleanup, and so on, when we close those bases?

Mr. WARREN. My general answer would be yes. We did a recent report where we looked at 10 previously closed depots, and we did exactly the analysis that you were talking about and we did find a significant variance between the COBRA estimate, and then what the actual savings were going to be after you take out environmental and other factors that have not been included.

That experience showed, however, that there still were substantial savings.

Mr. CUNNINGHAM. Then why are your figures so different from the administration's figures?

Mr. WARREN. I have not seen the administration's figures.

Mr. CUNNINGHAM. Well, they are saying that there are great savings by privatizing.

Mr. WARREN. Well, I did read their press statement. They indicated that they did not have precise numbers, but they thought that these would be on—first, when they talked about depot privatization, they talked about in the billions, and then when they talked about privatization in general, they said perhaps as much as $15 billion.

We have not seen a specific analysis that goes behind that, Mr. Cunningham.

Mr. CUNNINGHAM. I agree. That is why I say, they are claiming $15 billion, in total, our depots. We only put $12 billion, total.

Mr. WARREN. Yes. As I read it, I thought they were talking about all of the privatization initiatives that they have working, and that they were a little less—or they were more conservative—when it got into depots and only talked about billions.

But our point is that we have not seen an analysis that supports that.

Mr. CUNNINGHAM. I personally think the administration is violating the law and trying to circumvent BRAC, and in which they set forward the initiative themselves in the first place. That now, because of political reasons, are trying to circumvent BRAC and they are coming up with their own figures.

Ms. DENMAN. The $15 billion in depot maintenance cannot be achieved from any depot privatization because that is more than the depot maintenance budget. The depot maintenance budget in the O&M account is somewhere between $12- and $13-billion annually.

When you add to that the approximately $2 billion that is included in the procurement account, you might get up to that amount, but you cannot possibly save that which is the total amount of your budget.

Mr. CUNNINGHAM. I yield back the balance of my time. Thank you.

Mr. BATEMAN. Thank you, Mr. Cunningham.

Next, Mr. Browder.

Mr. BROWDER. Thank you, Mr. Chairman.

Mr. Cunningham, I want to echo what you just said. You know, we just went through the pain and torment of three BRAC rounds that said we have got excess capacity. Let us close down these places.

Now we are being told, "Hey, we cannot close down these places, let us keep as many of them open as possible. Certain ones."

And I really applaud you for what you said.

I would like to ask my friends from GAO a couple of questions.

You say that historically the DOD depots have produced quality work which has satisfied the needs of their customers. Your report also says "where comparative data was available," and you have made cost comparisons, "DOD depots have been less costly than the private sector."

If the quality is good and the price is cheaper, why should we support the wholesale privatization of DOD's depot maintenance?

Mr. WARREN. Well, there are obviously other factors that have to be considered beyond cost that go into policy judgments regarding national security, industrial base, and things of that nature, and I think those would have to be considered. However, our overall analysis, as it relates to cost, clearly shows that the savings are not there at this point in time.

So my point is that I do not want to say cost is the only factor in this very difficult decision. Other things have to be considered.

Mr. BROWDER. Mr. Warren, you are absolutely right. There are two basic questions there. Does this make sense for our national defense, and does this make sense for the American taxpayer?

It is very clear from your report that we do not know what it will do to our national defense readiness. This could impact negatively

on our readiness. But we can rest assured, I think, that it will cost more.

So there are other factors, such as our national defense, and, obviously, there are some other factors that go into these decisions also, and I hope that we can zero in on those today.

I would like to close by asking you a particular question about a specific decision.

I am concerned about the depot core maintenance policy and its impact on those depots that are going to be left standing, because you paint a very negative picture about what lies in the future for them.

What impact does privatization of excess capacity have on remaining depots. In particular, what is the likely impact on Anniston Army Depot if the Army chooses to privatize-in-place the 113 family vehicles' workload currently at Red River Army Depot instead of consolidating it at Anniston Army Depot with all of the Army's ground combat vehicle maintenance?

What is the cost to the taxpayers of such a decision, and what is the impact on readiness?

Mr. WARREN. The likely impact on Anniston is that it is going to exacerbate what is already a bad situation with regard to excess capacity there, and I would think that would have to drive up cost much in the same way that we—although we have not done that specific analysis, but I think the same principles would apply in that particular case.

From a readiness standpoint, I do not believe we have done an analysis on it at that point.

Ms. Denman, do you have any other data on that?

Ms. DENMAN. Yes, sir. The impact on the overhead rate of not moving the workload to Anniston would be fairly significant.

It would vary depending upon how much of the workload is retained at either Red River or Letterkenny.

But, basically, it could amount to $4 to $6 more an hour, spread over all the workload.

Mr. BROWDER. So we do not know the readiness impact, but we do know that it will cost more money. Are the savings from these efforts supposedly going to modernization?

What happens to modernization——

Mr. WARREN. Well, I think that is an extremely important point. To the extent that these savings are not realized, then the Department's strategy of harvesting savings, so to speak, from privatization efforts will not come to fruition, and then you are left with where do you get that money for the additional modernization.

If I could just add one thing. In the Department's policy—and it is hard to say, again, as I said, how this will ultimately play out—they do have a number of caveats where they say, "We are not going to move forward with privatization unless, in essence, this makes good business sense."

"In other words, the capability is there. We have considered the cost considerations."

And that is why I said in my opening statement, that the actual impacts are uncertain. In other words, we would have to see how the policy implementation plays out to really get a clear picture of

the impacts on cost, readiness, and obviously the mix of public/private depots.

Mr. BROWDER. Mr. Chairman, I think anybody who reads this GAO report has to be alarmed. They have to be alarmed about what is happening. I see the red light came on, so I will not impose on the committee. But, read the GAO report and ask yourself, does this make sense for our national defense, and does this make sense for the American taxpayer? The answer, in both cases is no.

Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Browder.

I would like to make note of the fact that Congressman Jones and Congressman McKeon from the full committee have now joined us.

Trying to equalize the time in terms of who is here and in what proportions, the Chair will next recognize Mr. Edwards.

Mr. EDWARDS. Thank you, Mr. Chairman.

I would just like to follow up on the previous question of my friend, Mr. Browder. You say if you do not move business from Red River to Anniston, you are going to increase overhead cost at Anniston. If you move business from one depot to the other, do you not increase the overhead at the depot from which you have moved business?

Mr. WARREN. Well, the idea would be that that depot would be closed down. In other words, that has been the fundamental premise under the Base Closure and Realignment Act with regard to all bases but, in particular, today we are talking about depots.

The idea is that your greatest savings are achieved when you have an opportunity to close an entire facility, therefore, doing away with the maintenance of that infrastructure. So that is the context that we are referring to.

Mr. EDWARDS. But the BRAC Commission recommended that Red River not be closed down, is that correct?

Mr. WARREN. Yes, sir.

Mr. EDWARDS. OK. Mr. Chairman, that is all the questions I have for this witness.

Mr. BATEMAN. Thank you, Mr. Edwards.

At this point the Chair will recognize the gentlelady from Florida, Mrs. Fowler.

Mrs. FOWLER. Thank you, Mr. Chairman.

I also want to echo what Mr. Browder said. Anyone interested in this area should read this report. It is very well done, Mr. Warren.

Mr. WARREN. Thank you.

Mrs. FOWLER. I want to commend you. It is an excellent report. I went through it, and if you are interested in national defense and interested in saving the taxpayers money, which we are interested in both, then I think we need to heed your testimony and statement.

I just have a couple of questions.

In your testimony you state that 76 percent of your sample of existing private sector contracts were awarded noncompetitively, and that 58 percent of the 95 non-ship public/private competitions had zero, or one private sector bid. This appears to be a rather substantial indication that the private sector market for depot maintenance does not have, at this time, adequate levels of competition.

Under these conditions, do you believe the public depots should be allowed to compete for workloads before they are privatized?

Mr. WARREN. The current laws allow for that, and our work would strongly indicate that where you had public/private competitions that did, in fact, drive costs down in the public sector, and also had added benefits of causing a phenomena for the other 23 percent that were losing saw a need to reengineer their current activities to make them more competitive.

So you got a twofold benefit, I think, from that competition program. First, you got reduced cost through the competition, and then second, for those that were less efficient, they went about trying to make themselves more efficient.

And then we saw examples where, after that was done, the depots that had formerly lost were able to come back and win in a substantial way.

Mrs. FOWLER. So, as a rule, the taxpayers benefit when we have competition for bids?

Mr. WARREN. Our work has shown that. Yes, Ma'am.

Mrs. FOWLER. Your statement also indicated that privatization-in-place, as we stated earlier, at Newark, McClellan, and San Antonio would not, likely save the Government any money.

Have you also looked at the privatization-in-place at Red River, Letterkenny, and other locations, and what are the implications of privatization-in-place to ever closing any more bases that have large activities, such as depots, laboratories, engineering centers, if we follow this philosophy?

Mr. WARREN. We are in the process of looking at the activities that you indicated and our general observation, thus far, is that you are going to have the same type of scenario playing out that we see at Kelly and McClellan. In other words, the savings are not likely to be there.

I think on the second part of the question, that it is important to consider, if you take a general privatization-in-place strategy—in other words, you are taking infrastructure that you are trying to get rid of through a base closure process, and move it into another category, so to speak, but it is still infrastructure to the Department of Defense, that that really does not get you toward the overall objectives that the Base Closure and Realignment Act was designed to do.

Mrs. FOWLER. So you have yet to find a privatization-in-place that saves dollars?

Mr. WARREN. From our work thus far, but I would add that the number has been limited. Again, the thing that drives this—and I keep repeating it—but if you have excess capacity, then it is hard to make the numbers work.

Mrs. FOWLER. And the BRAC Commission's purpose was to eliminate excess capacity?

Mr. WARREN. That was one of their key objectives. Yes, Ma'am.

Mrs. FOWLER. And privatization-in-place does not do that. One last question, did you identify any problems with the DOD's workload report?

Mr. WARREN. We are also in the process. We have a legislative requirement to report out in about a month on both of these reports. We are having some difficulty, at this point in time, reconcil-

ing data between the services—in other words, inconsistency in the data that the services provided—and we are also starting to find inconsistency in data that was reported in earlier reports versus the data that is being reported today. And that is one reason we do not have any specifics on that today, because we just have not been able to get through the numbers in a way that we are confident enough to be able to tell you what we think they actually mean.

So we do have some concerns, clearly.

Mrs. FOWLER. So we are being asked to make decisions based possibly on some data that has some very inconsistent facts within it. Correct?

Mr. WARREN. That would be our preliminary observation and, as I say, within the month we should have a full report on that to the committee.

Mrs. FOWLER. Thank you.

Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mrs. Fowler.

Mr. Tejeda.

Mr. TEJEDA. Thank you, Mr. Chairman.

I appreciate your interest in this issue, and I am pleased that we are able to devote an entire hearing to a matter which is extremely important to some of us on the committee, and the communities across the Nation.

Mr. Warren, I would like to focus on some of the conclusions you reached in your opening statement. You stated that the new depot maintenance policy provides wide latitude during implementation, and that likely outcomes are difficult to predict.

You also state that cost savings are likely achievable from some depot privatization. Would it be fair for me to infer that you believe the Pentagon and Congress can achieve some sort of cost savings by repealing 60/40, and effectively managing the new policy?

Mr. WARREN. That is really a policy judgment on the repeal, but I think what our work shows is that there are some opportunities for savings through privatization-in-place. In other words, I am not saying across-the-board, or privatization, that that will not work. OK?

Mr. TEJEDA. You also conclude that privatization-in-place does not appear to be cost-effective, given the excess capacity in DOD's depot maintenance system. Yet, at the same time, you acknowledge that—and I quote "Because of numerous uncertainties, it is impossible to precisely estimate the potential savings." And we are talking of moving Kelly and McClellan work to other depots.

You also stated—and I quote: "For systems such as the C–5 aircraft in San Antonio which could have relocation costs of about $100 million, privatization, either in place or at a contractor's facilities, may be the most cost-effective alterative."

Now, did the GAO consider such factors as spending hundreds of millions of military construction funds, of replicating facilities that already exist, during a tight budget environment which can barely house our troops, and their families in adequate barracks and homes?

Also, did you factor in such military readiness concerns as transferring the unique workloads and the possible large attrition rate of these highly skilled employees?

Mr. WARREN. We did factor in the cost of replacing facilities at the gaining depots; however, we wanted to note that if you were to unbundle, so to speak, the various workloads, that there are certain key facilities, such as a painting facility that does not exist within the Department, that it may make some sense to go ahead and keep that, in fact, there.

So we wanted to acknowledge that as part of our analysis. But in doing the overall analysis, we did include the one-time costs that would be associated with recreating the facilities.

With regard to readiness concerns, our analysis focused principally on cost. However, we did note that the BRAC Commission, as part of its legislative requirements set forth for them, were, in fact, supposed to consider readiness implications as they made their decisions.

Additionally, we note that some Navy depots were required to make closures, and were able to accommodate the readiness concerns as well in the process.

Julia, would you like to add something?

Ms. DENMAN. Yes, sir. We looked at the relocation costs at both Sacramento and San Antonio and have estimates of about $475 million, about $100 million of which would be for the C–5.

If you factor in those relocation costs with the savings that we figured—and we have not completely done a thorough analysis, and believe there will be more savings about the 182—you would have a payback in 2½ years.

So we did consider relocation costs. We would expect that there would be certain workloads, such as the C–5, that have a high relocation cost and that are older systems, which one might not want to consider relocating to another public depot, particularly in view of the fact that the private sector is likely to have capability somewhere else to do these workloads.

With regard to the readiness answer, the Air Force has successfully relocated about 60 percent of its workload. In the past, when it has reorganized under its TRC concept, and in fact proposed a very significant relocation of workload as its recommendation for downsizing all of the existing workloads rather than closing any of them in the BRAC, I am sure that they took those readiness considerations in making that recommendation to relocate all of those workloads.

So we feel that that can be handled, as it has been handled successfully by the Navy and by the Army, in closing depots as a result of prior BRAC's.

Mr. TEJEDA. Thank you, Mr. Chairman.

Mr. BATEMAN. Mr. McKeon is no longer with us.

Mr. Spratt.

Mr. SPRATT. Mr. Chairman, in deference to those who have a dog in this fight—and I do not—I will yield to someone else my time, and Mr. Pickett I think would be a good candidate.

Mr. PICKETT. Thank you, Mr. Spratt.

Mr. Warren, and your colleagues, we appreciate your being here today. I have gone over your report and I think there are some

rather interesting contrasts in the statements that you are making, and you say the DOD's policy report signals a clear intent to shift workloads to the private sector. And it has some qualifying factors on that.

Then you say the policy report shows a clear preference for moving workload to the private sector, and then you follow that up by saying that: "privatizing depot maintenance workloads in the current environment is not likely to achieve the savings DOD expects, and may even cost more."

Does that indicate that we are getting the cart before the horse in this process? That the Department is over there charging ahead with privatization when they do not know where they are going, when they are going to get there, or how they are going to get there?

Mr. WARREN. Well, they are setting forth a policy, clearly, that takes you in that direction. The piece of the pie that I do not have right now, and again, the policy is replete with caveats, saying that we are not going to do this unless the economic conditions are right.

If, in fact, that occurs—in other words, when they go through the various risk analysis, and they take a look at the data, and they say the markets are not there, they say the numbers do not work, and they say: "No, we have to send this to our public depots,"—then the chances that we will have a robust capability in the public sector will be there and the cost-effectiveness will be served.

The factor that is unknown is will that in fact happen, and that is why we stressed at the end of the testimony that if the policy is put into place, it is critical that it be monitored on a yearly basis, to determine, in fact, how these various areas, where there is latitude for judgment with regard to what to do with workloads, is closely watched, to see if the spirit of the words that are in the policy are followed.

Mr. PICKETT. Well, do you think it is appropriate to make the decision to move ahead, to privatize, without first knowing what privatizing is going to provide in the way of savings?

Mr. WARREN. I would be very concerned about doing that.

Mr. PICKETT. Well, you are, and you go on to talk about the role of public/private competition in the era of privatizing. And then you follow this up with the statement that should chill everyone's blood up here a little bit. "The future of the DOD depot system under the Department's new policy is uncertain,"—meaning it just could be blown away. It could go away.

Is that implicit in what you are saying?

Mr. WARREN. It could go away or I think you could end up with the worst of both situations. In other words, you could have a smaller, yet inefficient, public depot system that is not very cost effective, and a larger sole-source private sector system that is very costly.

So that is a danger, and we are trying to lay that out for the Congress.

Mr. PICKETT. Well, you have laid it out very clearly, and I want to compliment you on how clearly you have laid it out, because what you are saying, if I may paraphrase, is that if we keep on the path that the Department has set us on we are going to lose the

system we now have, and God only knows what is going to happen in place of it.

Is that what you are saying?

Mr. WARREN. I am saying it is uncertain what that system will be. Again, the Department does have a number of caveats with regard to economy and the efficiency of how they are going to operate the system, and I think in fairness to them, they are going to go forward with a policy of close monitoring, to find out if that, in fact, is going to happen and it would be appropriate.

Mr. BATEMAN. If I might, the Chair would advise the members of the committee that we are voting on the final passage of the taxpayer bill of rights. After that vote there will be a 5-minute vote on the Holocaust bill.

I would suggest that we recess at this point and return just as quickly as we can. We will pick up with Mr. Everett as the next member to ask questions.

[Recess.]

Mr. BATEMAN. In the interest of time, I will ask the subcommittee to come to order, and since Mr. Everett has not returned, I will recognize at this time the gentleman from Utah, Mr. Hansen.

Mr. HANSEN. Well, thank you, Mr. Chairman.

I do appreciate the opportunity. Frankly, Mr. Chairman, I am a little amazed that Secretary White is not here to hear the testimony given by the GAO.

I think the testimony from the GAO is excellent. Those of us who have taken the time to read it have found it to be excellent testimony, and I almost wonder, Mr. Chairman, why we are even holding this meeting when we see how clear that is. In my humble opinion, there is no question that there is a violation of the law. I helped write part of the base closing law and I do not see how anyone, any attorney who got out of law school, could in any way interpret the law to be anything different.

When you get down to it, the language that is there is abundantly clear. The President has 15 days, and he has two things he can do. Congress has 45 legislative days, and we can reject or accept.

I am just amazed that we are even here, if I may say so.

This reminds me of the time that FDR tried to stack the Court because he did not like the way they were determining different interpretations of the law and the people told him he could not do that.

With that said, let me ask Mr. Warren, could you tell us the magnitude of the excess capacity problem in the air logistics centers.

Mr. WARREN. Currently, the number that I have is 45-percent-excess capacity, and by 1999 that was projected to be 49 percent for the five centers, and that——

Mr. HANSEN. 45-percent capacity. What should be the capacity, excess capacity? What is an ultimate good figure that you want to operate these ALC's at?

Mr. WARREN. About 85 percent.

Mr. HANSEN. So 85 percent, just leaving the 15 percent excess, and kind of a slush factor in there, would that be correct?

Mr. WARREN. Yes.

Mr. HANSEN. So we are way, way under then, is the way I look at it.

Mr. WARREN. Yes, sir.

Mr. HANSEN. OK. Well, Mr. Chairman, this is the reason the BRAC Commission made the decision to close two ALC's.

I would ask the Chairman's permission to enter, for the record, testimony prepared by a BRAC depot team leader and several letters from the BRAC commissioners, who make their intent clear.

[The following information was submitted for the record:]

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April 17, 1996

The Honorable Herbert Bateman
Chairman
House National Security Readiness Subcommittee
2350 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Bateman:

Thank you for your continued leadership and open mind on the issues of core maintenance and efficient Department of Defense depots. I think your hearing yesterday was very important for the Committee and revealing of the Department's true intentions. I appreciate your understanding and patience in allowing all interested members to constructively participate in an understandably lively debate.

I have included a number of attachments that I had asked permission to include in the hearing record. I also have included a number of questions for the record. Again, thank you for your continued fair and open leadership on this important issue.

Sincerely yours,

James V. Hansen
Member of Congress

JVH:bj

THE WRITTEN STATEMENT

of

James L. Owsley
for

THE APRIL 1996 ARMED SERVICES HEARINGS
ON
PRIVITIZATION OF DEPOT MAINTENACE FACILITIES

My name is James L. Owsley and I was the Cross Service Team Leader for the 1995 Base Realignment and Closure Commission(BRAC) My team had the responsibility to perform analysis for potential realignments amd closures in maintenance depots, labratories and test and evaluation facilities. Based on the results of the analysis we made recommendations to the Chairman and the Commissioners. During the final deliberations the Commission voted to Realign/Close McClellan Air Force Base in California and Kelly Air Force Base in Texas.

The data used by the BRAC Commission to reach this decision was provided by the U,S.Airforce and the DoD Depot Joint Service Working Group. The information provided showed that with only operating a single shift that the Air Force Depots were less than 50% utilized.

The Commission was also provided ratings of the activities by the USAF Base Closure Executive Group. The major factor to be used in their ratings, dictated by the DoD to all services, was MILITARY VALUE as it applied to readiness. The ratings ranged from a high of 33 points for Hill Air Force Base to a low of 11 points at McClellan Air Force Base.

In the Final Deliberations data was presented that showed that by closing Kelly and McClellan Air Force Bases that the USAF would save $342,000,000 yearly without considering added savings that would be realized by efficiencies of combining the work-loads at the remaining three depots (Hill, Robins,Tinker). Chart "A" indicates the affect of one commodity(Engines) in yearly savings for rates only of $83,115,900 by combining the workload at Tinker AFB. The BRAC Commission, in its final report to the President, strongly recommended the transfer of the engine work to the Tinker AFB.

The analysis performed on engines showed that the same logic should apply to the other activities recommended for transfer to the Hill and Robins Air Force Bases. Chart "B" indicates where this effort would have been transferred based on the data provided to the Commission by the USAF Base Closure Executive Group and the DoD Depot Joint Services Working Group.

There are three important facts that were made about Chart "B" during the final BRAC deliberations.

1) All CORE workload is within the capacity of the three remaining ALC's.

2) Break even by Closing McClellan and Kelly would occur within **ONE YEAR!**

3) Surge capacity still remained since all work was calculated on a single shift basis.

Chart "C", presented during the final deliberations, show that current and projected workload can be performed by using only the three highest rated depots on a single shift basis.

CONCLUSION

Based on information and data provided by the **USAF and the** DoD the Commission's Final Report stated "The Kelly AFB and the McClellen AFB closures will permit improved utilization of the remaining ALC's and substantially reduce DoD operating costs.

"**Privitization in Place**" was not part of the BRAC 1995 law. In two instances, Louville and Indianapolis, the Commission voted for closures with a request that the Navy reveiw the proposals that the two cities had put forward.

The intent of the Commission was also reflected in the direction that said "**directs the Defense Depot Maintenance Council to determine and direct the appropriate distribution of work to other DoD depots or to the private sector.**" This was done to take the decisions away from the individuals services and to allow movement of core work to the DoD sites recommended by the DoD Joint Services Working Group in their 1995 report to the BRAC process and to allow **non-core** work to be privatized. Such direction if followed have greatly enhanced savings, moved significant work to the private sector and insured readiness.

Respectfully,

J.L. Owsley

COST ADVANTAGE OF CONSOLIDATING AF ENGINE MAINTENANCE AT TINKER AFB

ANNUAL SAVINGS SHOWN IN BRAC 1995 FINAL DELIBERATIONS BY CONSOLIDATION AT EITHER SAN ANTONIO OR OKLAHOMA CITY	$73,095,900
LOWER RATE AT OKLAHOMA CITY VERSUS SAN ANTONIO FROM THE USAF DEPOT MAINTENANCE INDICATOR REPORT	$10,020,000
TOTAL SAVINGS* IF BRAC RECOMMENDATION WAS FOLLOWED	$83,115,900

*DOES NOT INCLUDE ADDITIONAL SAVINGS THAT WILL COME FROM LEARNING EFFICIENCIES IN A FULLY LOADED ENGINE SHOP AT TINKER

Chart "A"

CONSOLIDATION OF CORE WORKLOAD WITHIN 3 AIR FORCE DEPOTS

FY 1999, SINGLE SHIFT

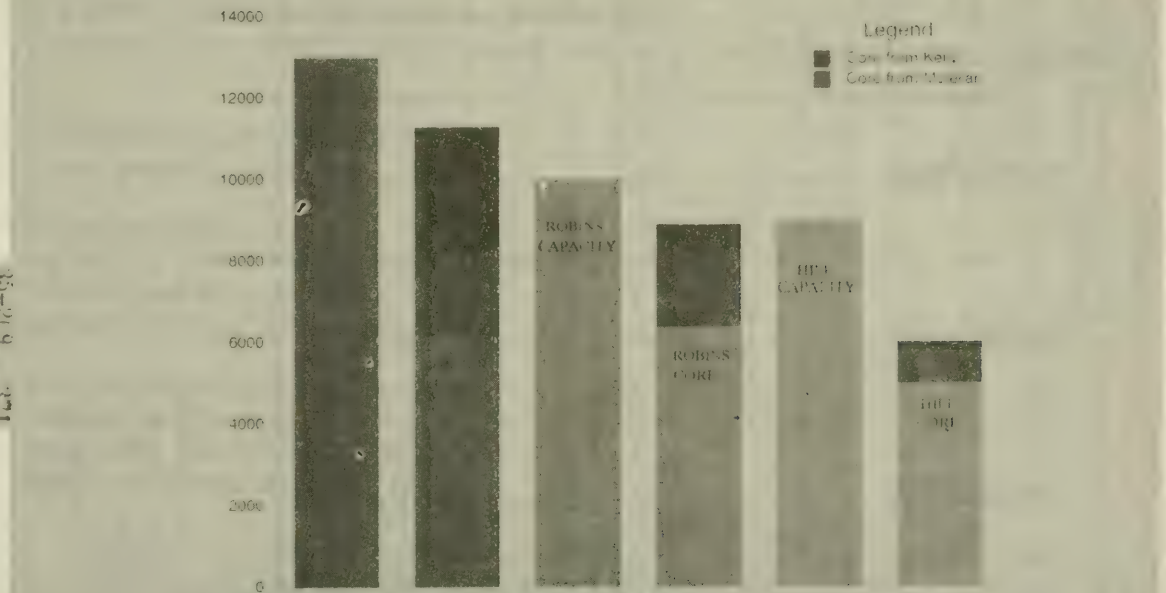
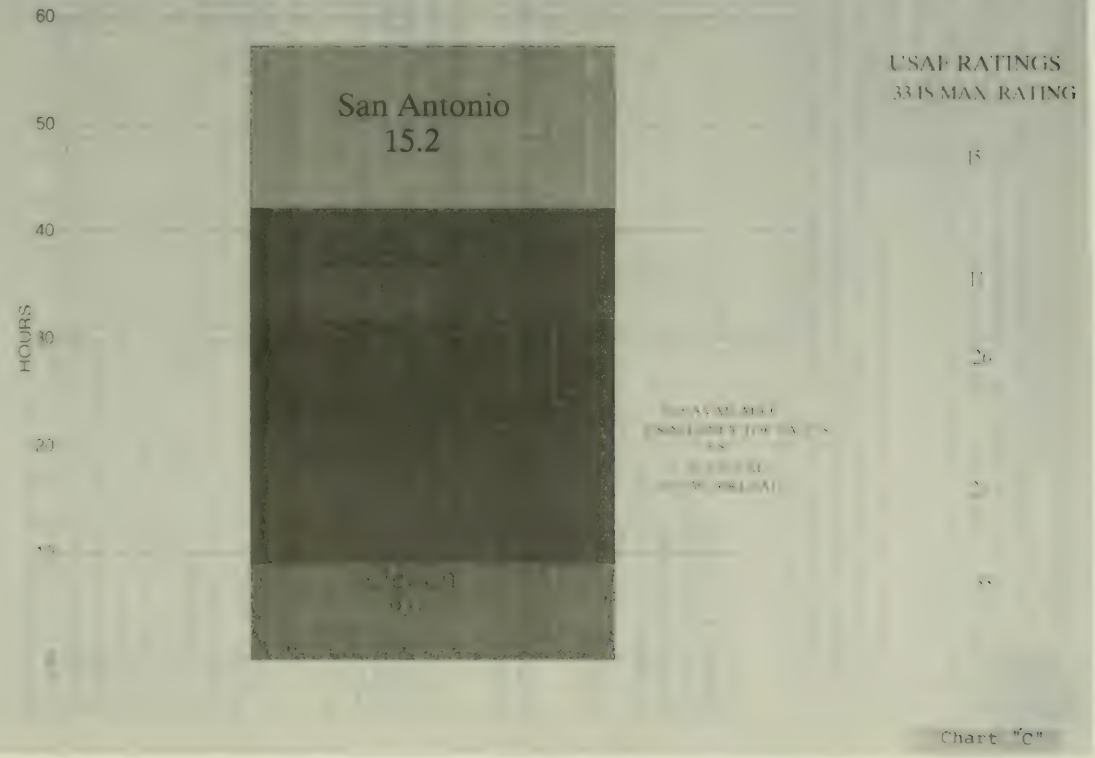


Chart "B"

86-219 321

AIR FORCE CERTIFIED MAXIMUM POTENTIAL CAPACITY (SINGLE SHIFT)
REPORTED TO THE DOD DEPOT CROSS-SERVICE GROUP (MILLION HOURS)



THE DEFENSE BASE CLOSURE AND REALIGNMENT COMMISSION
1700 NORTH MOORE STREET SUITE 1425
ARLINGTON, VA 22209
703-696-0504

ALAN J. DIXON, CHAIRMAN

COMMISSIONERS:
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REBECCA COX
GEN J. B. DAVIS, USAF (RET)
S. LEE KLING
RADM BENJAMIN F. MONTOYA, USN (RET)
MG JOSUE ROBLES, JR., USA (RET)
WENDI LOUISE STEELE

October 9, 1995

Honorable J.C. Watts, Jr.
Congress of the United States
House of Representatives
Washington, D.C. 20515-3604

Dear Congressman Watts:

Thank you for your recent letter concerning the issue of privatization in place for the workload of the Sacramento and San Antonio Air Logistics Centers. I certainly understand your interest in this question.

As Chairman Dixon noted in his July 8 letter to Deputy Secretary of Defense John White, the Commission was generally very supportive of the concept of privatization of DoD industrial and commercial activities. This is consistent with the May, 1995 Report of the Commission on Roles and Missions of the Armed Forces, which concluded that "with proper oversight, private contractors could provide essentially all of the depot-level maintenance services now conducted in government facilities within the United States."

In the specific cases of Sacramento and San Antonio Air Logistics Centers, the Commission was very aware that we were recommending the closure of two very large industrial activities. The Commission's recommendation to consolidate the workloads of these two Air Logistics Centers "to other DoD depots or to private sector commercial activities as determined by the Defense Depot Maintenance Council" was intended to give the Air Force and the Secretary of Defense the maximum flexibility to implement the closure of these two Air Logistics Centers in a way that would eliminate excess capacity without harming ongoing Air Force operations. With the exception of the direction to move the common-use ground-communication electronics workload currently performed at Sacramento Air Logistics Center to Tobyhanna Army Depot, the Commission did not direct any of the workload of McClellan or San Antonio Air Force Bases to any specific DoD depot or to the private sector. We felt that the Defense Department was in the best position to make these judgments.

The Commission's review clearly documented significant excess capacity in the five Air Force Air Logistics Centers. Privatization in place of all of the workload of Sacramento and San Antonio Air Logistics Centers could result in privatizing excess capacity rather than eliminating it, and could also miss the opportunity to improve the efficiency of other DoD depots by increasing their utilization.

In summary, I believe it was our intent to give the Department of Defense the necessary flexibility to reduce overall costs in the Air Logistics Centers. It is my belief that alternatives short of full consolidation at the three remaining Air Logistics Centers must survive a strict cost and efficiency standard which results in lower appropriations. If that does not occur, I concur in your assessment that the BRAC process has been "turned on its ear" for other purposes.

Sincerely,

RADM Benjamin Montoya, USN (RET)
Commissioner

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703-696-0504

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MG JOSUE ROBLES, JR., USA (RET)
WENDI LOUISE STEELE

September 21, 1995

Honorable J.C. Watts, Jr.
Congress of the United States
House of Representatives
Washington, D.C. 20515-3604

Dear Congressman Watts:

Thank you for your recent letter concerning the issue of privatization in place for the workload of the Sacramento and San Antonio Air Logistics Centers. I certainly understand your interest in this question.

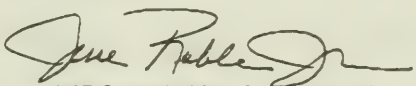
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In the specific cases of Sacramento and San Antonio Air Logistics Centers, the Commission was very aware that we were recommending the closure of two very large industrial activities. The Commission's recommendation to consolidate the workloads of these two Air Logistics Centers "to other DoD depots or to private sector commercial activities as determined by the Defense Depot Maintenance Council" was intended to give the Air Force and the Secretary of Defense the maximum flexibility to implement the closure of these two Air Logistics Centers in a way that would eliminate excess capacity without harming ongoing Air Force operations. With the exception of the direction to move the common-use ground-communication electronics workload currently performed at Sacramento Air

Logistics Center to Tobyhanna Army Depot, the Commission did not direct any of the workload of McClellan or San Antonio Air Force Bases to any specific DoD depot or to the private sector. We felt that the Defense Department was in the best position to make these judgments.

Thank you for your continuing interest in the base closure process.

Sincerely,



MG Josue Robles, Jr. USA (ret.)
Commissioner

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MG JOSUE ROBLES, JR., USA (RET)
WENDI LOUISE STEELE

September 21, 1995

The Honorable J. C. Watts, Jr.
U. S. House of Representatives
Washington, D.C. 20515

Dear Representative Watts,

Thank you for your letter of September 15 and questions regarding the issue of privatization in place for the workload of the Sacramento and San Antonio Air Logistics Centers.

The Commission was, in general, supportive of privatization of DoD industrial activities where appropriate. However, privatization as a concept and forced privatization in place of what is clearly excess depot capacity are two very different issues.

In the specific cases of the Sacramento and San Antonio ALCs, the Commission was very aware that we were recommending the closure of two very large industrial activities. The Commission's recommendation to consolidate these workloads, other than common-use ground-communication and electronics work, "to other DoD depots or to private sector commercial activities as determined by the Defense Depot Maintenance Council. Move the required equipment . . . to the receiving locations" was intended to *move* that workload to the most cost-effective and operationally sound location after closure of the ALCs and elimination of that capacity.

We felt that the Depot Maintenance Council, rather than the Air Force, would be in the best position to proceed in good faith to maximize efficiencies by determining what portions of that workload should be interserviced, moved to another ALC or transferred to the private sector (not necessarily "in place"). Forced privatization in place of all of the workload is contrary to the intent of our Report language.

The only instance I am aware of the Commission specifically discussing the *possibility* of significant ALC privatization in place, or a government owned/contractor operated facility (GO/CO), was the C-5 work at Kelly (excluding engines). That would assume it could be accomplished by a private contractor at that location for less than the savings and efficiencies which would be realized by moving it. By all of our measures, it appeared that the long-term savings to DoD would be substantial by moving that workload to another ALC, but we did not want to pre-determine the outcome of a complete and fair analysis by the Depot Maintenance Council, which the President's proposal disallows.

Though the Commission did not direct the engine work to move to another ALC, our Findings state, "The Commission urges the Air Force to consolidate engine maintenance activity at Tinker to reduce excess capacity. The Commission firmly believes that consolidation of engine activities will result in lower costs and increased efficiencies."

Privatization in place of all the workload of the 2 closing ALCs would enhance our national security posture only when:

- o moving the work to another DoD depot or to a private activity would have unmanageable operational/readiness risk;
- o the costs to move the work would outweigh the long-term efficiencies and savings which would be realized (capacity utilization, reduction in overhead, etc.); or
- o a truly unique capability or strategically important redundancy would be lost or unable to be cost-effectively replicated elsewhere in the public or private sector.

It's important to remember that both DoD and the Commission's review clearly documented significant excess capacity in the 5 ALCs. Privatization in place of all of the workload of Sacramento and San Antonio would result in shifting excess capacity to what appears would be a competitively protected segment of the private sector rather than eliminating it, and further, would miss the opportunity to improve the efficiency of the other DoD depots.

The Commission clearly did not intend to privatize in place all of the workload from the 2 ALCs we voted to close, as noted in our Findings, "closure . . . permits significantly improved utilization of the remaining depots and reduces DoD operating costs." Where the Commission encouraged privatization in place, our Report addresses it directly (see pgs. 1-58 to 1-61). Such was not the case with the ALCs.

Moreover, not allowing the remaining ALCs -- all of which ranked higher in military value -- to compete for the additional workload, will cause them to become increasingly less cost-competitive in the future. Even beyond common sense issues of most effectively utilizing our limited defense resources, I am at a loss to understand why it would be in the Air Force's best interest to protect its lowest ranking depots at the expense of its 3 superior installations.

As difficult as it was to vote for the closure of 2 facilities of this size and quality, the Commission voted 6-2 to do so because we felt that it was in the best interest of the Air Force, DoD, and the American taxpayers. If any Commissioner had offered a motion to privatize in place, as the President proposes, I am 100% certain that such a motion would have been defeated handedly.

Representative Watts, I hope I have answered your questions. Please feel free to contact me if I might be of further service on this or any other matter.

Highest regards,

Wendi L. Steele
Commissioner

S. LEE KLING
1401 SOUTH BRENTWOOD BOULEVARD
ST. LOUIS, MISSOURI 63144
(314) 963-2501
FAX (314) 968-1255

September 29, 1995

Honorable J.C. Watts, Jr.
Congress of the United States
House of Representatives
Washington, D.C. 20515-3604

Dear Congressman Watts:

Thank you for your recent letter concerning the issue of privatization in place for the workload of the Sacramento and San Antonio Air Logistics Centers. I certainly understand your interest in this question.

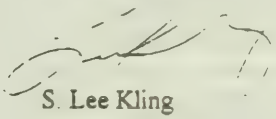
As Chairman Dixon noted in his July 8 letter to Deputy Secretary of Defense John White, the Commission was generally very supportive of the concept of privatization of DoD industrial and commercial activities. This is consistent with the May, 1995 Report of the Commission on Roles and Missions of the Armed Forces, which concluded that "with proper oversight, private contractors could provide essentially all of the depot-level maintenance services now conducted in government facilities within the United States." Privatization is very beneficial in certain situations but not all.

In the specific cases of Sacramento and San Antonio Air Logistics Centers, the Commission was very aware that we were recommending the closure of two very large industrial activities. The Commission's recommendation to consolidate the workloads of these two Air Logistics Centers "to other DoD depots or to private sector commercial activities as determined by the Defense Depot Maintenance Council" was intended to give the Air Force and the Secretary of Defense the maximum flexibility to implement the closure of these two Air Logistics Centers in a way that would eliminate excess capacity without harming ongoing Air Force operations and provide the greatest savings. With the exception of the direction to move the common-use ground-communication electronics workload currently performed at Sacramento Air Logistics Center to Tobyhanna Army Depot, the Commission did not direct any of the workload of McClellan or San Antonio Air Force Bases to any specific DoD depot or to the private sector. We felt that the Defense Department was in the best position to make these judgments.

The Commission's review clearly documented significant excess capacity in the five Air Force Air Logistics Centers. Privatization in place of all of the workload of Sacramento and San Antonio Air Logistics Centers could result in little or no savings to the Air Force by the closures. Further, it might result in privatizing excess capacity rather than eliminating it and could also miss the opportunity to improve the efficiency of other DoD depots by increasing their utilization.

Thank you for your continuing interest in the base closure process.

Kindest regards,



S. Lee Kling

OP-ED The Washington Times

Close air force bases for efficiency, not votes

By James M. Inhofe and James V. Hansen

On April 4, the Department of Defense issued a report to Congress detailing plans to privatize maintenance support of critical Department of Defense weapons systems. In concluding that those of us who oppose this plan are only motivated by local pork, many well meaning critics of government spending have apparently missed some basic facts.

In 1988, Congress established the independent base closure commission to place military value ahead of local interests in the difficult process of shedding our nation's excess military infrastructure. Despite the local pain caused many of the Base Closure and Realignment Commission (BRAC) decisions, a majority in Congress put the national interest ahead of parochial ones and voted to make the BRAC recommendations the law of the land. Unfortunately, the Clinton administration now seems intent on ignoring the law for the sake of over 25,000 jobs — and potential voters — in California and Texas.

Recent articles have stated that "savings could reach $15 billion annually" if the Department of Defense would "shift more weapons and equipment maintenance to outside contractors." If true, this would indeed be a windfall to American taxpayer. However, the Department of Defense's entire budget for depot maintenance is $12.5 billion annually and over $4 billion of this is already spent in the private sector. Real savings from the base closure process will only be achieved when the excess capacity found in these facilities is reduced by shifting this work to other DoD depots, or to the private sector through free and open competition.

The five aviation maintenance bases run by the Air Force currently operate at well below 50 percent of their capacity. Maintaining this excess overhead means every product they produce is more expensive than it need to be. When BRAC recommended closing two of them, their reasoning was clear: "the closure of Kelly AFB and McClellan AFB permits significantly improved utilization of the remaining depots and substantially reduces DoD operating cost." While the hundreds of millions of dollars in savings this represents does not match the fanciful $15 billion claimed by some, these figures were at least arrived at through objective analysis by the DoD, the General Accounting Office and BRAC.

The Clinton administration seems intent on ignoring the law for the sake of over 25,000 jobs — and potential voters — in California and Texas.

Like the rest of our Republican colleagues, we believe in a smaller government. However, what that means to us and what it means to the president are two different things. To us smaller government means that the federal government should only do those things that are specified by the Constitution, such as providing for national defense and regulating interstate commerce. All powers not expressly given to the federal government should be sent back to the people in their state houses and local communities. To the president the end of big government apparently means decimating the Department of Defense, letting the rest of government grow, and using ever-increasing taxes to pay premiums to private providers of government services

We can state unequivocally that we are not opposed to privatization of current government functions where the powers of a competitive marketplace can help achieve savings and efficiency. Indeed, there are thousands of dedicated private contractors working at each of the public depots today. However, we also believe the Department of Defense must retain a robust, organic core maintenance capability to ensure the military readiness of our nation. Each of these depots must be fully and efficiently utilized to provide the best value to our taxpayers and the right kind of support to our troops.

The only thing we are crying foul over is this administration's attempt to circumvent the law for electoral gain. The law is crystal clear. These two bases must be closed. The work that is "core" —maintenance of critical weapons systems — must be consolidated to remaining depots. All work that is not "core" must be freely competed between public and private sector bidders to ensure the best value to the taxpayer. Any restriction on movement of this work will only cost us all scarce defense resources.

Simply stated, the president's order to privatize in-place is based on political calculation, not sound military judgment. It will result in dramatically reduced savings and increased maintenance costs for the Air Force. And it will call into question the integrity of the entire independent BRAC process. Every state and community that lost a base will now be asking, "Why didn't we get special attention and why can't we be privatized in-place?"

If privatization in-place of excess capacity at closing bases is such a great idea, why isn't the administration pursuing it at the other 132 bases effected by the BRAC decisions? Because these bases are not in states vital to President Clinton's re-election campaign, that's why.

Sen. James M. Inhofe, Republican of Oklahoma, is a member of the Senate Armed Services Committee and Rep. James V. Hansen, Republican of Utah, is a senior member of the House National Security Committee.

The les

It is "by right of our mar tiny to overspread an the whole of the contin Providence has given u development of the grea ment of liberty and self ment."

So there. That's it. No ar No ifs or ands or buts. It wa and shut case. America. Th was John L. O'Sullivan, a ed New York newspaper e



Richard Grenier

leading nent of A westwar ment. "L we are wrote famous j of the "history the chil ages yet how th gathered crusade year 184 1846? the Civil War? Now what could that have been? The Mexican War? Was that a crusade? I'd that was just a little border t Texas. I must refer the rea major article in the Spring the Wilson Quarterly by Johannsen.

But that's not how most cans felt about it at th friend. When the call for teers went out, coincidi first reports of victories on Grande, public respon instantaneous and huge. to be drawn from states cl the military action, quot rapidly oversubscribed sands of young men were away. Illinois alone su enough men for 14 reg where only four had been for the entire war.

The rush of volunteers, ac to another prominent write

Richard Grenier is a colun The Washington Times. His appears here Tuesday and F

The key to fighting crime is accountability

thank exam ing st ■ I sione the C

Editor's note: This is the latest memo fraudulent crime debate, there is, of course. John Manle And if they failed to take effec

ANSWERS BY CBO
TO QUESTIONS POSED BY
CONGRESSMAN JAMES HANSEN

1. How did you come to the figure of $1 billion in savings?

The figure of $1 billion indicates the magnitude of annual savings that DoD might achieve in the long run by shifting to the private sector those maintenance tasks now performed in DoD depots that could be handled in the private sector on a competitive basis. In order to estimate those savings, CBO reviewed DoD's workloads for repairing aircraft, aircraft engines, and ships in an effort to identify tasks for which competition already existed in the private sector or for which the size and nature of the public workload indicated that such competition could be developed. CBO found that tasks falling into those categories accounted for over 60 percent of the aircraft, airframe, and ship maintenance now performed in DoD depots.

Much of that 60 percent reflects tasks--such as maintenance on engines and airframes for cargo planes and maintenance of surface ships--that are already being performed to a significant extent in the private sector on a competitive basis. Those tasks account for between 30 percent and 40 percent of the airframe, engine, and ship maintenance performed in public depots. The remainder of the 60 percent are tasks that have traditionally been done within public depots but for which competition might be developed in the private sector. They include maintenance on fighter airframes and aircraft engines for which DoD has large inventories and workloads (for example, the F-15, F-16, and A-10). Although those aircraft have traditionally been maintained in public depots, the opportunity to compete for contracts that offer large, steady workloads would probably generate substantial interest among independent repair firms. CBO did not include tasks that could be allocated to the private sector only on a sole-source basis, such as inactivating nuclear ships or maintaining specialized aircraft or engines with small workloads.

To get the $1 billion figure, CBO took 0.2 (the savings rate discussed in the answer to question 2) times 60 percent of DoD's public depot workload of approximately $9 billion. One limitation of this approach is that the tasks that CBO reviewed--aircraft, aircraft engine, and ship maintenance--might not be representative of DoD's depot maintenance as a whole. Although the actual level of savings that would be achieved is uncertain, CBO believes that the $1 billion figure provides a reasonable assessment of potential long-run annual savings from shifting workload to the private sector. The figure is intended to give readers some idea of the order of magnitude of potential savings. It should not be interpreted as an estimate of the short-run savings from privatizing existing DoD facilities.

2a. You cited studies including airlines, banking, bus services, and refuse collection to suggest that savings of 20-40 percent could be achieved. Were these privatizations conducted by the U.S. federal government? If not, where did these cases come from?

Much of the evidence about the cost advantage of private over public production comes from overseas--primarily Europe and Australia--or from local governments within the United States. In part, this reflects the greater experience that other countries have had with nationalized industries.

One of the studies cited by CBO, *Comparing the Efficiency of Private and Public Production: The Evidence from Five Countries*, by Thomas Borcherding and others, is a literature review that assesses the evidence available for five countries: Canada, West Germany, Switzerland, Australia, and the United States. As its title indicates, the study focused on the relative efficiency of public and private production, not on the ability of federal governments to privatize specific public facilities by converting them to private control. Most of the evidence relating to industries in which equipment maintenance is an issue (railroads, airlines, utilities) came from outside the United States. Of the five studies the authors reviewed that compared the efficiency of U.S. federal production with private production, only one was for an industrial activity (a comparison between public and private costs for overhauls of ocean tankers and oilers); the remainder dealt with services such as hospitals, debt collection, and weather forecasting.

Other studies cited by CBO suggest that competition among firms in the private sector is one factor that helps to explain why private production is frequently less costly than public production. One of those studies, *Issues Concerning Public and Private Provision of Depot Maintenance*, by John D. Keenan and others, finds that the Navy saved 20 percent to 30 percent when it allocated depot-level maintenance tasks on the basis of competition. (Although that evidence suggests that competition may reduce costs regardless of whether the competitors are private or public, DoD has found it difficult in practice to sustain fair competition between public and private firms.)

2b. Does the U.S. federal government have any experience in privatizing any industry as complex as a DoD depot maintenance facility?

The federal government has very limited experience in directly privatizing government facilities. The conversion of Conrail from a government corporation to private control is one of the few examples. The ongoing effort to convert the U.S. Uranium Enrichment Corporation to private ownership is another.

The federal government has somewhat greater experience with shifts in industrial work from the public to the private sector. Prior to World War II, for example, military arsenals owned and operated by the government were responsible for producing a significant share of weapons. The shift in weapons production from federal to private facilities that took place during and after the war might be comparable to the potential shift in depot maintenance responsibilities that CBO's study discussed. The federal government also has experience with different mixes of public and private depot maintenance. During the late 1950s and early 1960s, private contractors accounted for over half of the maintenance performed for the Air Materiel Command. The federal government's ability to shift work between the public and private sectors, however, does not mean that it has the ability to successfully convert specific facilities from public to private ownership in an environment in which there is significant excess capacity.

3. It appears that many of these cases are more consistent with base operating support and services than core depot-level maintenance. Is there a difference in the level of competition in the marketplace between the service industry and military weapons support industry? Are long term, sole source maintenance agreements likely to produce any savings compared to an efficient public depot system?

Competition for base operating support contracts has the potential to involve many firms; competition for weapons production or support contracts typically involves only a few firms (sometimes just two or three). Nonetheless, in the defense industry, where DOD is virtually the sole buyer, there is evidence that effective competition can be provided by only a few suppliers.

It is questionable whether long-term, sole-source maintenance agreements will save money compared with the cost of maintenance in a public depot. That is a concern even among analysts who do not assume that public depots are efficient. Because of that concern, CBO focused on those depot maintenance tasks for which competition would be possible over the life of the weapon systems.

A more difficult question, which CBO did not attempt to answer, is whether a one-time competition for a production contract that includes a life-cycle maintenance agreement might provide a cost-effective alternative to public maintenance. In many cases, DoD faces a choice between a less-than-perfectly-competitive private sector and a public depot system that, because of the multiple social and political objectives it must serve, is unlikely to be efficient in the sense of producing a particular quality and level of output at low cost.

4. There is been much discussion regarding the concept of "privatization in-place" of closing DoD depots. Do you believe "privatization in-place" of identified excess capacity is likely to produce any savings? In your opinion, will DoD achieve any savings through "privatization in-place" if its retained depot system continues to operate below 50 percent of capacity?

CBO's estimate of the long-run savings from shifting workload to the private sector implicitly assumes that the public sector will reduce its employment levels and capacity as a result of the shift. Moving workload and facilities to the private sector (as envisioned under DoD's plans to privatize in-place) may not lead to any savings if the final result is greater excess capacity within the remaining DoD depots.

Mr. HANSEN. I hope that the folks here realize that I have in my hand letters from the BRAC commissioners that I am asking to be put in the record. They were specifically asked the question: "Do you or do you not feel that they should be privatized?"

First, they said that was never the intent of BRAC to privatize any of these ALC's, and the only way there could be a cost saving is if the work was then absorbed into other areas.

How much money would be saved by consolidation of the ALC workloads to the three other locations? Could you give us an idea on that.

Mr. WARREN. Our estimate is $182 million, annually. So you are talking over a 5-year period, well over $500 million.

Mr. HANSEN. Would you give us that figure again.

Mr. WARREN. $182 million, annually.

Mr. HANSEN. And is this savings in addition to the BRAC savings achieved by closure of these facilities?

Mr. WARREN. This would be a reestimate. In other words, the BRAC Commission made an estimate. We have gone back and done a recalculation based on the data that we have now, and understanding what is going to be done. So that $182 million is a different number than the COBRA analysis.

Ms. DENMAN. Yes, sir. The $182 million is merely a projection of the recurring cost savings after the relocation.

The BRAC did not extensively look at that analysis. The COBRA analysis really did not look at the potential for that.

The COBRA numbers focused on personnel reductions, and some other analyses, that would not take advantage—productivity increase, and the potential of reducing the overhead rate.

We have not tried to replicate the COBRA analysis to look at the overall savings over a 20-year period, in any way.

Mr. HANSEN. It seems abundantly clear to me that we have a tremendous inefficiency if we are running with this 45 percent that you previously mentioned.

What would be the cost of that? Could you give us some idea of the effective cost that this insufficiency is causing?

Mr. WARREN. In other words, if we are too——

Mr. HANSEN. In other words, we have people painting rocks, apparently, or people who are not doing the kind of work they ought to be doing. If we are not coming close to that capacity, obviously, it seems to me, we have an inefficiency.

Mr. WARREN. The inefficiency is largely in the overhead rate, but——

Mr. HANSEN. Would you concur with that?

Ms. DENMAN. The inefficiency is more in not using the facilities and plant equipment than it is a personnel inefficiency. Basically, you have a depot facility and equipment that was designed for a much higher utilization rate.

Now, there has been a 49-percent reduction in personnel in these depots over the last 5 or 6 years. So the Department has been downsizing people, just not downsizing the buildings and plant equipment.

Mr. HANSEN. People have been throwing at us around the Hill the idea of what a great thing Newark was. What is your opinion

of the savings or costs incurred in the privatization-in-place of Newark?

Mr. WARREN. The analysis we have thus far is that that is also likely not to achieve savings. We have gone in and analyzed some of the individual estimated contract item costs and found that it would cost about $6 million more for those workloads. Let me see. I am sorry, sir. We looked at about 254 contact items. For those, we found that 79 percent of those are higher in the privatization-in-place, in other words, costing more under privatization-in-place than they cost previously in the organic depot situation.

Mr. HANSEN. Thank you, Mr. Chairman. I see the red light is on, so my time is up. I want to thank this group for the excellent testimony they have given, and when we took the time to thumb through your report and read it, I was very impressed at the good work that you did, and I think it is a tremendous implication against the position taken by the administration and the Pentagon.

Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Hansen.

Before recognizing Mr. Everett, the Chair would like to comment that I am going to call on everyone who is still here, in order to give them the opportunity to ask questions. But I would sort of enjoin them, in a gentle sort of way, not to plow the same furrow again because we do want to hear from the Secretary, and then give you an opportunity to ask him questions.

With that, Mr. Everett.

Mr. EVERETT. Thank you, Mr. Chairman.

Good afternoon. Director Warren, let me make a statement and get you to respond to it, if you will.

If there is a sufficiently broad supplier base in the private sector at an acceptable level, it strikes me that it makes sense to compete this work among qualified private firms.

If the supplier base is insignificantly broad, or its performance is unsatisfactory, then the Government can move back in-house. How would you respond to that?

Mr. WARREN. Yes, I would generally agree with the statements that you are making.

Mr. EVERETT. Let me ask you another question.

If it is clear that the warfighters in our military support the proposed expansion of DOD depot maintenance outsourcing policy because they feel that resources must be reallocated in order to support future force modernization, are the war fighters wrong in their support of workload outsourcing?

Mr. WARREN. I do not want to speak for them, but in other words, if their premise—as I understand the war fighters' concern, they feel that the infrastructure is draining dollars, it is inefficient, and therefore, those dollars, with a limited top line for the Department of Defense's budget, those dollars could be applied to modernization.

So they strongly support anywhere where reductions can be made in infrastructure, whether it is the depots or any other activities, that then can be applied to modernization.

Mr. EVERETT. Mr. Chairman, I would like to yield to my colleague from Alabama, the remainder of my time.

Mr. BATEMAN. Without objection.

Mr. EVERETT. Mr. Browder.

Mr. BROWDER. Thank you.

I appreciate my friend from Alabama yielding to me because I just want to enter something for the record, Mr. Chairman.

My good friend from Texas made the point a couple of minutes ago that the BRAC Commission had not recommended Red River for closure, and I was asking about the work from Red River moving to Anniston.

For the record, BRAC recommended that Red River be realigned, that Bradley work be retained at Red River, and that all other work—all non-Bradley work—would be realigned to other depot maintenance activities, and that includes the 113, which is non-Bradley.

So, I just wanted to put that in to clarify so the impression would not be given in the record that the Base Closure Commission recommended that Red River stay open, period. Thank you.

Mr. EDWARDS. Will the gentleman yield.

Mr. BROWDER. Yes, I would.

Mr. EDWARDS. OK. I do not want to second-guess decisions of the BRAC Commission, and Red River is not in my district, but the point I was just trying to make is that if you have two depots that are open, and you move work from one to another, you may decrease the overhead at one but increase the overhead at the other. I am not sure it is more than a zero sum game in that particular kind of circumstance.

Mr. BROWDER. Reclaiming my time, the gentleman is right. But as I understood it, the BRAC Commission made that ruling and that direction, and it is not up to us to debate, or for anybody to make changes in. Thank you.

Mr. BATEMAN. The Chair would concur that today is not the day to have that debate.

Mr. Chambliss.

Mr. CHAMBLISS. Thank you, Mr. Chairman.

First of all, Mr. Warren, in response to a question from Mr. Hansen with respect to Newark, I believe you used the figure of a projected additional cost to the taxpayer of $6 million. Should that not have been $600 million?

Mr. WARREN. The $6 million relates to our most current work. In other words, we have analyzed some additional contracts. That earlier $600 million figure was related to an Air Force study that we had been provided when we did the initial work, probably about 1½ or 2 years ago.

So, at that point in time, all we had were estimates. At this point in time, we are going back and looking at actual contract items—estimated cost versus the cost of performing that work. And what we have found for that group of items is about a $6 million difference in cost.

Mr. CHAMBLISS. And that was on the current work?

Mr. WARREN. Yes, sir.

Mr. CHAMBLISS. OK.

Ms. DENMAN. We have not had the time, nor the data, to do an analysis of the contract to be able to make a comparison on all of the items. Neither do we have all of the information, because it is essentially a cost-plus contract, and until you actually finish the

performance, we would not know for at least a period of a year what all the increases would be.

We are merely saying we know, based upon our evaluation of the contract for these items, that it is $6 million more, just based upon the items that we looked at.

Mr. CHAMBLISS. OK. I notice in your written presentation you talk about the question of legal authority for privatization-in-place, and you have asked the question of DOD, in writing, to provide you with their understanding for legal authority for the issue of privatization-in-place of these two ALC's, Kelly and McClellan.

Have you had any response to that written inquiry as of this date?

Mr. WARREN. We just, I think on the 11th, received a letter, but I would like to ask Mr. Brosnan, our Assistant General Counsel, to respond specifically, please.

Mr. BROSNAN. The letter we got did not give us a substantive response. We went over to the Pentagon and discussed the issue, informally, and the letter that we got basically memorializes the fact that there was a meeting, and says these are difficult issues, and they chose not to give us a detailed response.

Mr. CHAMBLISS. OK.

Mr. BROSNAN. So, we do not have an answer.

Mr. CHAMBLISS. Do you know of any legal authority for the privatization-in-place by DOD at Kelly and McClellan?

Mr. BROSNAN. Well, I think whenever you convert workload, a current DOD workload-to-performance by the private sector, you have to comply with the requirements of 2469, which basically says you have to conduct a competition among public and private sector entities.

We do not have, in detail, what their long-range plans are for Kelly and McClellan, but it is clear to us that they are going to have to comply with these competition requirements. Exactly how they are going to go about that is not clear at this point?

Mr. HANSEN. Will the gentleman very briefly yield on that point.

Mr. CHAMBLISS. Sure.

Mr. HANSEN. I am going to point out to the gentleman from Georgia, that when Secretary Perry was here I asked him specifically for the legal source that he had and he said, "Oh, we have it, I will give it to you tomorrow." Now, that was 2 months ago, and I have been asking for it daily ever since, and I am still waiting for it.

Thanks for yielding.

Mr. CHAMBLISS. As I recall from your written paper, you wrote to DOD back in January of this year, and what you are saying today is that you have never received a substantive answer to that request of DOD. Is that right?

Mr. BROSNAN. That is correct, sir.

Mr. CHAMBLISS. OK.

Mr. WARREN. The basic response was that the policy report, and other documents had been provided to the Congress, and that contains our position. We did not see that position in there.

Mr. CHAMBLISS. Mr. Warren, on the issue of public versus private competition, DOD has contended that the playing field is not level because of the accounting procedures used by the public sec-

tor, and that they are not able to really determine what the costs are in the public sector.

How, would you respond to that? What is your thought on whether or not you are able to tell how much it costs on any one contract.

Mr. WARREN. I think, first of all, it is right to say that there are legitimate concerns there. When the public/private competition program started back in the late 1980's there were a number of concerns.

In response to that, a cost comparability handbook was developed in order to, in essence, level the playing field, to make sure that the various cost factors were in place to conduct the competitions.

In their policy, DOD indicates that there is a need for some limited competition, and they point to the fact that they think they can accomplish it through the means of the cost comparability handbook along with audits of public sector data.

So those things taken together, and the work that we have done in the latter years, looking at the competitions, we think those things can be overcome with reasonable management actions, and appropriate internal controls.

Mr. CHAMBLISS. Do you know whether or not DOD agrees with your assessment of that?

Mr. WARREN. I infer that they do from the statements I see in the policy report which indicate that they feel they can conduct limited public/private competitions through the use of the cost comparability handbook and audited bids.

Mr. CHAMBLISS. OK.

Mr. SISISKY. Will the gentleman yield for just a minute?

Mr. CHAMBLISS. I will be glad to.

Mr. BATEMAN. I appreciate the indulgence, because we do need to have the opportunity for members to direct their questions to the Secretary and hear his presentation.

Bearing in mind, we do not want to plow that same furrow more than two or three times. Now I will recognize Mr. Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman.

First, Mr. Warren, I would like to commend you for your testimony this afternoon and, obviously, the preparatory job that you and your staff have done in analyzing the depot system as a whole.

As a person who has been heavily involved in the depot issue for over a decade, I know that the issue is very complex and you and your staff have done an excellent job of auditing and evaluating the Department of Defense in a very short period of time.

You know, there is an old Spanish saying that says when I tell you that the horse is brown because I have got its hairs in my hand, I can find those brown hairs anywhere. I am not sure that the justification for the depot outsourcing and privatization proposal being touted is actually applicable to the specifics of the program.

In particular, the cost savings projected by DOD are based on the assumption of competition and previous experience with the A–76 Program and, according to Secretary White's testimony, the DOD developed three criteria as the basis for outsourcing decisions.

One, DOD would not consider outsourcing activities which constitute our core warfighting mission.

Two, a competitive market must exist for the activity, and three, outsourcing the activity must result in the best value for the Government and, therefore, for the taxpayers.

Now according to my analysis, the current depot policy proposal offered by the administration does not meet any of these three criteria because number one, it is proposing possible outsourcing of maintenance of critical mission essential warfighting equipment, which is a core warfighting requirement. You cannot fight a war without equipment repair capability; two, a truly competitive market does not exist for the bulk of depot maintenance, particularly as it applies to the new core weapons system; and three, historical data indicates that public depots are at least as competitive as private contractors, yet the DOD is proposing elimination of the one proposal which requires competition for workloads. This conclusion seems to be validated by the quantitative analysis conducted by your agency.

According to testimony, GAO's analysis of private sector depot maintenance contracts showed that 182 of 240 contracts reviewed were awarded sole-source.

Also, according to my own investigation, 84 percent of all Army component contracts are awarded to sole-source.

What is the justification for sole-source awards? Does GAO's prior depot maintenance work show any major pitfalls from extensive use of sole-source contracts?

What about the cost-plus contracts? Also, what methodology was used by the Department in evaluating risk, and does the insertion of risk assessment fundamentally change core calculations?

Could a misjudgment in risk analysis associated with repair of mission essential equipment, have a degrading impact on readiness? I know I have a lot of questions there.

Mr. WARREN. The basis for sole-source—we do not have a detailed analysis, but we did do some looking once we saw the numbers and, basically, a huge problem is that they did not have the technical data necessary to conduct the competitions and, therefore, the original equipment manufacturers received that work.

So that, I think, is a primary reason for that sole-source.

With regard to cost-plus contracts, I think you are quite right. Our work, over a period of time, has shown that those contracts are the contracts that experience the highest level of cost growth because of the uncertainty associated with them.

So that, in fact, does create a risk. Many of your depot maintenance type repair activities lend themselves to that because you do not quite know what you are going to be getting into when you open up that piece of equipment, and what are the actual costs—so it is hard to draw a specific statement of work to say what is going to need to be repaired on a particular item until you can get it open, take a look at it, and then move in that direction.

And I think the definition of core, and will it change—the principal change that has occurred there, and I would say the principle change for the committee and the policy itself, is the idea of the risk assessment.

In other words, previously, once it was determined that this was a first-line system and it was needed to support regional contingencies, that would go into our depot system.

Now, under the new process, there is a point where you stop and say, "Well, maybe some of that, through risk management, can go to the private sector." And if it is determined that that is the case, then it goes that way.

If it is determined that it is not the case, then it goes into the core. So that, obviously, does create some risk from a readiness standpoint.

However, the military commanders are involved in making those judgments, and I would assume that they are going to look very carefully at that as they do it for their warfighting forces.

But that is a critical change from what we have had in the past.

Mr. ORTIZ. There is a lot of risk involved.

Mr. WARREN. By definition, it is called risk management. Yes, sir.

Mr. BATEMAN. Next is Mr. Watts. Let me advise all the members who remain that they will be given the opportunity to ask a question, but they can submit that question for response for the record, because we really are getting into a desperate timeframe in order to be able to hear the Secretary and be able to ask him questions, which I am sure the Members are very anxious to do.

Mr. Watts.

Mr. WATTS. Thank you, Mr. Chairman.

Mr. Warren, your statement says that privatizing-in-place is likely to be more costly than consolidating workloads in remaining DOD depots. You mention that to arrive at about a $280 million annual recurring savings it can be achieved by consolidating the San Antonio/McClellan workloads in remaining depots.

Now DOD states that it expects to see about a 31-percent savings as a result of privatization, and I am curious how do you draw a conclusion on that? What is the conclusion to be drawn on that?

Mr. WARREN. Well, I have not seen the DOD estimate so I could not give any specific analysis on that. If that refers to the OMB——

Mr. WATTS. Right. OMB.

Mr. WARREN. Let me just make a couple of points on that. We did raise concerns about the savings that would be achieved, the level of savings that would be achieved through the OMB work, and we raised concerns about whether that level will be there.

But, more importantly, when we looked at that work, that work was not depot level maintenance work. It was other types of activities where, in fact, there is a hotter bed of competition, and you would not expect to see the competitive forces drive down the cost of doing things like lawn maintenance, painting, care of facilities, and things of that nature.

With regard to our base cost estimate of $182 million, as I have said earlier today, what drives that is the excess capacity that exists within the Air Force depot maintenance system.

Mr. WATTS. So the conclusion is that your savings comes from the BRAC report, by applying the BRAC report, and DOD's savings comes from—there is a difference between privatization and——

Mr. WARREN. DOD is making an estimate of what they believe they can save based on prior competitions that have occurred. They are making a projection. The data that we have for the $182 million is an analysis of specific cost information relative to the Air Force depots.

Mr. WATTS. OK. They are talking about the savings outside of your core maintenance.

Mr. BATEMAN. I believe that we had better suspend and go on to the next questioner, because we are getting even more desperate for time.

Mr. WATTS. Mr. Chairman, thank you, but I did want to make that clarification.

Mr. BATEMAN. Well, very appropriate so.

Again, reminding members that they can submit questions for the record, Mr. Scarborough.

Mr. SCARBOROUGH. I will just be very, very brief.

We have heard you talk about the corrections from the DOD, and also saw your written testimony regarding the Commission on Roles and Missions, and how those estimates may have been flawed.

Are you familiar with the CBO estimates that have estimated that it would save possibly up to $1 billion a year? And are those numbers, from your understanding, flawed for the same reasons, that you are not talking about, you are talking about privatization versus competition, and different functions and rules?

Ms. DENMAN. To my understanding, the data was based upon similar analysis of expected savings from competition. The 20-percent to 30-percent number that has been kicked around and used for many years, based upon commercial activities reviews that we are talking about, such as mowing lawns, and other things, there have been no definitive studies that evaluated potential savings from depot maintenance.

Having discussed this with the CBO, their data was not based upon an analysis of depot maintenance data.

Mr. SCARBOROUGH. So if DOD numbers are flawed, as you believe they are, and if Roles and Mission numbers are flawed, then is it a safe assumption to say that the CBO estimates are also fatally flawed?

Ms. DENMAN. The assumption in the CBO data is based on savings from competition.

Mr. SCARBOROUGH. Right.

Ms. DENMAN. And if you can have 11 to 16 people bidding on a workload, if it is depot maintenance or anything else, you might achieve a 30 percent savings.

Because what is evident is that you have got a service that a lot of people——

Mr. SCARBOROUGH. Sure, and just to save time, I understand that, and I understand your testimony was that Roles and Mission may have been flawed because of those. They did not take that into consideration, and how it applies to depots. So I just want to get it on the record that if, for that reason, Roles and Missions and DOD are flawed in their analyses, then the CBO analysis would be flawed for the same reason.

Ms. DENMAN. Yes, sir, except——

Mr. SCARBOROUGH. You can just say yes, and we will go on to the next question.

Ms. DENMAN. Yes, sir. If, in fact, you have a military commodity that is commercially available, and many people can bid on it, and it does not involve a large capital investment, and——

Mr. BATEMAN. The Chair is going to enjoin the witnesses that they need not be repetitious.

Mr. SCARBOROUGH. Right. So, Mr. Warren, would you agree then that for the same reasons—and I could reread it—if the Roles and Missions is flawed, and DOD is flawed, then also the CBO estimate based on the same is flawed?

Mr. WARREN. Yes. The only thing I would add is the CBO's study. They also recognize in that study that a prerequisite to savings is competition.

Mr. SCARBOROUGH. Right. And you do not have that in depot.

Mr. WARREN. Yes.

Mr. SCARBOROUGH. OK. Thank you.

Mr. BATEMAN. The gentleman from California, Mr. Fazio.

Mr. FAZIO. First of all, Mr. Chairman, thank you for letting me sit in with this committee. I have not been on it for a while. It is good to be back with my colleagues from the Depot Caucus. I see they are all arrayed and doing an effective job for their districts, as they always did.

I have been working on the Appropriations Committee funding the GAO, and I guess today I am a victim of all the emphasis that we have placed on GAO's ability to do a proper analysis.

I find the work that you produce not as overwhelmingly positive as many of my colleagues would imply.

First of all, I see you have generally ignored dual use initiatives as a way of cutting down costs. We all know, as you have responded, that we need to cut overhead, and one way to do that is to bring in commercial activity.

For example, a hydraulics center could be doing work for United Airlines and helping to cut the overhead. Perhaps it would ultimately benefit the Air Force. I have not seen much analysis of that.

You talked about new construction, MilCon, and we will have to scrub the numbers to see whether those numbers are accurate, but I did not hear any discussion of personnel costs or early outs, or PCS's, or other activities that are clearly part of the cost of moving facilities.

And I also have not seen whatever the major losses in worker productivity might be, because I think those are real and need to be given consideration as well.

Let me ask, first, do you support the retention of the arbitrary 60/40 rule, and the $3 million threshold?

The impression I got a minute ago is that you thought it was a policy issue that GAO should not comment on?

Mr. WARREN. Yes, I think that would be my position.

Mr. FAZIO. So you do not want to take a stand on the basic question that this committee has to wrestle with?

Mr. WARREN. I think it is a policy call. What we are trying to do is bring information around, the factors that need to be considered in making that judgment, Mr. Fazio.

Mr. FAZIO. On the question of public and private competitions and cost comparability, I think I heard you say earlier that that is a problem that we could resolve but we have not resolved it. The comparisons between public institutions and the private sector are obviously very crucial here.

I am not confident that we are really able to make comparisons on a level playing field, and I think I heard you say earlier, that you would agree with that. It is just that we can fix the problem. It is not currently in our province to do so. We have to do the best we can with the data that is available.

Mr. WARREN. Initially, there were a lot of problems in that regard, and the point that I made was that DOD took a lot of pains to adjust the cost comparability handbook in order to address the concerns that were being raised.

Mr. FAZIO. So you still think those concerns remain, because that is certainly the impression that many of us have, that we have not perfected these comparisons yet, and yet we built a whole structure on them.

Mr. WARREN. I would not want to sit here and tell you they are perfect. The work that we have done would indicate that the data can be worked with, and with a DCAA audit, I think there can be confidence that you do, in fact, have comparable figures.

Mr. FAZIO. That they can be?

Mr. WARREN. Yes, sir. That is what we would say.

Mr. FAZIO. They are not at the moment?

Mr. WARREN. They have not been in the past. Yes.

Mr. FAZIO. Thank you, Mr. Chairman.

Mr. WARREN. In other words, the competition program was effectively terminated in 1994.

Mr. FAZIO. Yes. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you. The last questioner will be another gentleman from California, Mr. Doolittle.

Mr. DOOLITTLE. Mr. Chairman, thank you very much for allowing me to join you today as well.

It has been interesting to hear the testimony because it has been my experience that, typically, privatization results in lower costs, but here we have heard testimony where the Government can do the job cheaper. I find that interesting, and, indeed, there may be reasons why that is the case.

But it would seem to be that it certainly is the exception to the rule, at least from the testimony I have heard in the various committees that I have sat on.

And I am not speaking in reference, particularly, to the military.

Let me, though, ask you: the Pentagon, as I understand it, is promoting the private use of some of these depots, and were that the case, would you agree that greater private utilization of public depots would help reduce excess capacity?

Mr. WARREN. Greater utilization of——

Mr. DOOLITTLE. Were the private sector to have greater utilization of the public depots, would that help reduce this excess capacity that we have heard about?

Mr. WARREN. Julia, would you.

Ms. DENMAN. The major stumbling block in that area are laws that prohibit the public sector from competing with the private sector for private sector work.

The situation is that if there is any private sector contractor, anywhere, who can do the work, then a public facility should not be doing that work.

So if you are taking about wheels or landing gear on an aircraft, for example, there is someone, somewhere, who does that for a commercial product.

If the laws were changed to expand the ability of the public sector to do that, that might be. A few years ago, a provision was passed that would allow the public depots to do the work of other Federal agencies.

However, the Department would not allow the public depots to bid on that work. So that possibility was, in effect, that they could not do it and were not allowed to bid for the work.

Mr. DOOLITTLE. What I am talking about is not allowing the public sector to compete with the private, but allowing the private sector to come in and work on some of these depots. McClellan is one example. For example, the privatization-in-place, that contemplates, does it not, the private sector coming onto the campus and taking over some of those facilities?

Mr. WARREN. I think the general answer would be that that would help, but I would want to do an analysis of what impact that would have on the overall excess capacity situation that exists. Also, if I could say, I do not want to leave the impression that we do not believe privatization in various cases can result in savings.

I would say that, in fact, it can. What we are really talking about is whether or not you have the right circumstances, or preconditions, for that to result.

Mr. DOOLITTLE. Well, let me ask you this question.

Do you know of any example where such a public/private integration has been beneficial to the services, in terms of cost efficiency and depot capacity utilization?

Ms. DENMAN. The dual use has been so small, in the past, that the relative impact is minor. There are a few test situations at McClellan, at Anniston, and at Letterkenny where certain partnering arrangements have been done.

At McClellan, in particular, I know there is use of a piece of equipment by the private medical field. But the relative impact on increasing utilization is so small, that it does not significantly, or has almost no bearing on the cost of the products for DOD.

Mr. DOOLITTLE. So you really cannot cite such an example, then.

Mr. WARREN. We have not looked at that in detail, in fairness, sir. If you would like we can take a look at that.

Mr. DOOLITTLE. Well, yes, I would like that.

Thank you, Mr. Chairman.

Mr. BATEMAN. I thank you, and I thank all the members. Your questions have certainly been both extensive and excellent.

We thank the witnesses for being here, and for providing us with your information and insights.

With that, we will recess the subcommittee, pending the arrival of Secretary White, who I believe awaits outside.

[Recess.]

Mr. BATEMAN. The committee will come to order. We are very pleased to welcome the Deputy Secretary of Defense, Hon. John P. White, who is accompanied by Gen. Henry Viccellio, Commander of the Air Force Materiel Command. Gentlemen, thank you very much for coming. We are sorry for the long delay in being able to proceed with your testimony. We have your written statements,

which will be made a part of the record, and invite you to proceed as you may choose. Dr. White.

STATEMENT OF DR. JOHN P. WHITE, DEPUTY SECRETARY OF DEFENSE, DEPARTMENT OF DEFENSE

Dr. WHITE. Thank you very much, Mr. Chairman

We appreciate the opportunity to appear before the committee and discuss some very important subjects which have to do with readiness and with DOD efficiency and outsourcing. With your permission, Mr. Chairman, I would like to go through a brief oral presentation.

We have, as you know, Mr. Chairman, been spending a great deal of time working on this issue with respect to how we could make the Department more efficient. As you all know, our priorities every day are first, and most importantly, readiness; and then quality of life for our people, to make sure—because we have the finest people in the world—that we have provided them with appropriate compensation and training and equipment and taking care of their families. And we are busy expanding modernization and some of which I want to address today has to do with modernization.

First, let me back up a bit and tell you where we came from, so that you understand how we got to the point where we are today. We are all living through a period in which there is very major changes in our institutions. You know this better than we do, because you debate many of these changes every day.

In the last 15 years, we have seen the growth of a really integrated global economy, high rates of innovation and technological change, changing national concerns in terms of what we debate, and of course, geopolitical change which we see every day over in the Pentagon.

As a result of that, our institutions are changing. One of the most important changes, in terms of our institutions, has to do with the private sector and our business community. The business community has been faced, in this period, with a massive amount of challenge in terms of competition and in terms of the world in which they live. And they have responded to that very well.

They have reengineered their processes, they have invested in state-of-the-art technology, they have concentrated on their core competencies and that is fundamental. They have learned what they ought to do is emphasize what they are good at and what is at the center of their business. And then they have networked and combined and down-sized and, I think most importantly, outsourced those capabilities which they do not need in order to be a world class business, but that someone else can provide and can provide better than they can provide it for themselves.

As a result of that, they have gained a whole set of benefits. First of all, and most importantly, I think they focus on their core competencies. What is it they are good at and should be good at? Second, they improve the quality that they provide to their customers and the customer's responsiveness. Third, they reduce their costs. They also obtain changing technologies because the people who provide the service to them are also in competitive markets in

which they must stay up if they are going to be successful. And so they get better business practices.

Most of the businesses in the United States today are doing this, and we have grown up a huge industry that provides these specialized services. And as a result of that, we are the low cost producer of automobiles or steel or computers or software and on and on, which we were not 15 years ago.

It seems to us, as we looked at these phenomenon as the world has been changing and as we have had to change in the Pentagon with cutbacks in terms of our capabilities and in terms of our funding and so on, that we ought to learn from these experiences. It seems to us that we ought to be able to get the same kinds of benefits from this kind of phenomenon as has been the case with the private sector, that we ought to focus on our core competencies, which as you know have to do with our ability to conduct military operations, and that we ought to improve the support that we provide to our customers, to the war fighter, to the CINC.

That we ought to reduce our costs as we provide services throughout the Department of Defense. That we ought to make sure that in everything we are doing we are getting the benefit of the changing technologies that are out there in the private marketplace and should be of benefit to us. And of course, that we ought to employ efficient business practices in that part of our business which has to do with providing goods and services as opposed to our core competency.

Now being a very large public entity, obviously we have some added responsibilities in terms of our stewardship, so we have an added obligation to improve our efficiencies and to make sure that we are using the best management practices that we can.

Finally, we need to enhance our force capability and we would like to find more money to increase our funding for modernization. Modernization is a high priority for us. We are embarked on a major modernization program. We think the economies that we can get from BRAC, from acquisition reform, and from this kind of activity will add funds that we can use for modernization.

Now outsourcing, in this sense, is not new to us. It, in fact, is quite old. When I was an assistant secretary in the Pentagon in the late 1970's we did outsourcing. If you look just at this one study, this is a study done by the Center for Naval Analysis. They looked over a period, a long period of years, 1978 to 1994, in all of the services at a set of competitions. They looked then at what were the average savings and what were the percent savings from those particular activities.

It is also interesting to note that some 50 percent of that competition was won by government entities. The message here is that if, in fact, we can conduct outsourcing in the appropriate context, where there is competition, where you have the ability to make sure you're not impacting your core needs, that you can save money.

Let me give you some examples of the kinds of things we have already done, and I will not belabor this but it is important to note that on some of our most front-line systems, B–1 and B–2 software maintenance, we do that in the private sector. The F–117 stealth fighter, we do that maintenance in the private sector, and a whole

set of other platforms as well, of which I have provided just a limited number. And, of course, much of our non-nuclear overhaul, essentially all of it, we do in the private sector.

Our transportation needs in peacetime, almost all of it, are done in the private sector. So this is an indication of the kinds of things we are already doing, and later General Viccellio can talk directly, if you would like, to how, in fact, these particular systems were selected to be outsourced.

We have also done a lot of outsourcing in the Defense Logistics Agency. They have been a pioneer. This is an area again where we are providing goods and services, we ought to use best business practices, we ought to be responsive to our customers. And so we have delivery systems where we have been able to cut costs by 25 to 35 percent. Probably even more importantly, we have been able to change the response times by 75 to 90 percent. We are now getting 24-hour-response times on many of these particular assets.

We have taken this experience, which was largely in the health and medical area, and we are using it now in terms of spare parts. And of course, in all our base operating support facilities, we do a lot of outsourcing because it makes sense. We do not want to use our valuable soldiers, airmen, marines, and sailors to do that, and the private sector can do it very, very well.

Let me segue a bit to the background of this in another context, and that has to do with acquisition reform. From our point of view, we think this is another element of acquisition reform and we thank the Congress for the opportunities that have been provided us because you have allowed us, through changes in the law, to really streamline our acquisition process. As the Secretary and others have indicated, as they went through the budget this year, we are beginning to see those savings.

We think the rules that we have for acquisition reform also apply to support services, and that we ought to be able to get the same kind of benefits in the support service area that we get in the acquisitions of our goods, our platforms, our technologies, and so on. So we ought to be able to shorten the acquisition lead time, leverage quantity discounts, use commercial practices, and reduce our cycle time so that, in fact, we are a more efficient operation, just as we are demonstrating with acquisition reform.

In that context then we said what is it we ought to be able to look at, in terms of the functions that we perform, to see whether or not it is possible to provide ourselves with some outsourcing candidates that would allow us to better focus on our core capabilities, to better achieve technological changes, give us better choices, and to reduce our costs.

So as you can see from this chart, we have selected a wide range of functions that we perform in the Department. Everything from base operating support to depot maintenance, including data centers and housing—an area incidentally where, again, you have provided us with authorities that are allowing us to streamline our capabilities.

And, in each of these, we have put together teams that are now examining how much outsourcing is there. Is there an opportunity there to do some? We think the answer in all of these areas is clearly yes, and I will elaborate a bit more on that in a moment.

However, in doing so, we have to be very careful in terms of what it is we are doing. We want to make sure that we do not take our eye off the ball. Make sure that we are not in a situation where we lose sight of our fundamental mission. Most importantly, that means we have to preserve our core. We have to preserve that part of our functions which, in the evaluations done by the military leadership, is necessary to make sure that we have the combat capability and readiness that we need. So that is No. 1 in all of these cases.

Second, you cannot have a competitive environment unless you have some market alternatives, so we have to set up systems, and we are doing that and have done that, so that we can evaluate where we have market alternatives.

Then we have to conduct an analysis, what we call a best value analysis, to see whether or not it makes sense. We look at the past performance of the people in that particular marketplace. Are they reliable? Have they been timely? Can they provide quality? And, of course, we look at areas where we can also achieve lower costs.

It is our objective to do this responsibly, carefully, using these analytical tools, so that as you will see, in most of these instances where we look at an opportunity and identify going forward where it is we might outsource, we are talking about changes in the range of 10 to 15 percent of the workload. Now that may increase over time, but in the short run these are modest changes as we understand better and apply these careful criteria and do the analysis that we need to do.

Let me turn to a specific area which is highly visible and critically important to us, and that has to do with depots. Everything I said about all of these other functions pertain to depots, and probably even more so, because of the criticality of what our depots do.

They provide us with an organic capability which we must have and which we must preserve in order to make sure that we have the readiness in our warfighting that we need in order to meet our national security requirements. So it is our obligation to see that, in terms of that core assessment for those depots, we have the full array of capabilities that we need.

Now we have gone through an extensive analysis. Again most of this is responsive to requirements from the Congress. We have looked at a methodology and developed a methodology that is joint in terms of the services, led by the joint staff, but participated in by all four uniformed services. Then we have asked them to do a conservative assessment of the threat and the risk if there are opportunities for outsourcing. If there is a high risk or threat, we will not do it.

We have evaluated the various skills, facilities and tools that we need inside. What are those capabilities that we know we need in depots in order to make sure that we have this capability? That we must protect those capabilities.

And then finally, we've done calculations in order to represent and determine what exactly is the capability that we need inside. Let me show you a schematic of that process. We started, as I indicated, with a strategy. What is it that we need to do? In this case, it is fundamentally the issue of the two MRC strategy that you know so well.

Second, we have identified all of those capabilities that the services have to have in order to execute that strategy. Third, we said in terms of those capabilities for that strategy, what of all of our assets are directly tasked to deal with major regional contingencies? And we have identified all of those capabilities. Then we asked the question, in terms of those capabilities, what would provide us with a high risk if we did not have them and were not assured that we had that capability? That is our core.

So we have asked the professionals, in terms of their conservative judgments, what it is that we need to keep in that core? We have then taken the other MRC task, looked at whether there were acceptable risks in terms of not having it in core, and if so, we outsourced it, in terms of candidates for outsourcing.

Now this is not the point where we, in fact, outsource. This is simply where we identify a function and say it may be liable for outsource later. And then, of course, we have a whole set of non-MRC functions which we consider low risk and we would, in fact, also have as outsource candidates.

Now let me make one other important point. Once we have done all of this, we then go back to the core and say, in terms of what we have in that core, is that enough in terms of critical mass to make sure that we have all of the functions and capabilities and workload efficiencies that we need? And if not, then we take functions out of here and here and put them here. And we have done that.

For example, in the case of ship repair, you want to make sure that you always have a backlog and you do not have an idle shipyard. The way you do that, of course, is to make sure that you put more in core to assure that you have the efficiency that you need in terms of loading the demand for that particular shipyard. And, obviously, you do that for your public yards first.

That is the methodology, and it is done by each of the services. It was done by the uniformed people and we have senior representatives, general officers, here from each of the services who can speak to that if you and the other members would like.

The result of that is an assessment that says that if the services follow this methodology, and we would recommend that we do so, we would have the following changes in terms of the amount of work that would, in fact, be in public depots as opposed to private depots.

In this case, as you can see, this is the current 60-percent line, according to the 60–40 rule. The Army is slightly below that line. The Navy is next in terms of the middle 50's, and you can see where it goes up, and this is a question of lumpiness in shipyards and how you man them. The Air Force is down around 50 percent in the outyears.

So the largest swing off the 60-percent requirement is 10 percentage points. The swing in the other two services is significantly less than that, about half of that here and even less than that in the Army.

If we were to follow this practice, and obviously we would like the opportunity to do so, it will take us some time starting now in order to make this kind of evolution into a new balance that instead of 60–40—which in our judgment is artificial—we would

drive this in terms of what the services think is best in terms of what they ought to provide in core. If we were to do that, we would then reevaluate these every several years and, in fact, rely again on each of the services to make sure that we have this balance correct.

That is the approach we have taken in terms of trying to do what we think is our responsibility to identify how it is we get the efficiency, the emphasis on core competency, the technological changes that we need, the cost reductions that we need, and at the same time—most importantly—make sure that we have made a conservative estimate in terms of the core.

So, in conclusion, we think outsourcing makes sense. We think it makes sense because it provides us with an array of benefits which we, as an institution, need. We need to focus on our core competencies. We need to improve our customer service and reduce our cost. We need to make sure in all of these areas that we have access to new technologies and that we are employing efficient business practices.

At the same time, given our stewardship as a public entity, we need to make sure that we are improving our efficiency, following management practices, and striking a balance between what it is we do in the private sector and what it is we do in the public sector. And, fundamentally, what we are trying to do is find where that balance ought to be, and use guidance from the professionals in a regular methodology to identify where that balance should be.

We think we can save money doing this based on all of the evidence in the private sector, in State and local municipalities, and in our own experience, that there is a substantial amount of money that can be saved here. We do not know how much. We have not put an estimate on it, in terms of how much it would be, but we think as we go into this approach we will save money. And, equally important, we will have these other benefits as well.

And, of course, we also think we can overall enhance our force capability. That is the bottom line for us. If we do not enhance force capability, then we have not done our job.

Fundamentally, that's the approach we are taking. We are here to ask you to support that. Support that obviously means we would like relief from some of the restrictions that are now in the law in terms of how we conduct our business, so that as we go into the next century we are in a better position to provide ourselves with the kind of efficient and effective organization that we ought to have.

In conclusion, Mr. Chairman, it just seems to me that we have had this substantial contest between the free market economies and the planned economies. We won that competition, and it seems to me that the Department of Defense, in areas where it is relevant, ought to get to be some of the beneficiaries of what comes out of that private marketplace.

Thank you very much, Mr. Chairman.

[The prepared statement of Dr. White follows:]

Statement of

Dr. John P. White

Deputy Secretary of Defense

on

Depot Maintenance Policy

Before the

Subcommittee on Readiness

Committee on National Security

U.S. House of Representatives

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Mr. Chairman and distinguished members of the committee, it is a pleasure to appear before you today to discuss the Department of Defense's outsourcing initiative and its depot maintenance policy.

Today, the United States no longer faces a long and protracted conflict with a rival superpower. Instead, we must be prepared to meet diverse and sometimes unanticipated crises that require the use of military force. We have tailored our forces to be capable of fighting and winning two nearly simultaneous regional conflicts.

These conflicts are likely to be "come as you are" wars. We will require a ready force, rapid mobility, tailored and flexible maintenance support, and greater reliance on private sector suppliers.

New Challenges With a Smaller Budget

The United States military force today is the best in the world. Though 30 percent smaller than it was in the mid-1980s, it is highly motivated, well trained, well equipped, and highly ready for any contingency. DoD's budget is about 60 percent lower in real terms than its peak in 1985. The budget which Secretary Perry submitted to this committee in March recommends spending $243 billion in FY97 with increases in that amount over the next five years.

The five-year program reflected in that budget clearly reflects the Department's three highest priorities: readiness, quality of life, and modernization.

Readiness has been our top priority. Recommended funding levels for operations and maintenance accounts that support readiness reflect this emphasis. As a result, U.S. forces today remain ready and prepared to defeat any adversary and perform missions required to meet our national security objectives. Our program is designed to keep it that

way.

Readiness depends on attracting top quality people and retaining them after they have developed technical and leaderships skills. To do so, DoD must offer not only challenging and rewarding work, but also an appropriate quality of life which encompasses the entire package of compensation, benefits, and work and living environments for military service personnel.

U.S. armed forces are the best equipped in the world, and we have been able to maintain that status even as the Department's overall budget dropped over the past ten years. During that period, fewer resources were allocated to the purchase of new equipment. However, this reduction in the procurement budget came at little risk to our fighting forces. Because older equipment was discarded and newer equipment redistributed as forces were drawn down, the average age of our military equipment has not increased.

This reprieve is coming to an end, and increased funding for new equipment is required. Our five year program for FY97-2001 allocates the funds necessary to carry out a robust modernization program. In FY97, it allocates $38.9 billion for procurement and recommends that figure increase 40 percent to $60.1 billion by FY01, a total of $252 billion over the FYDP. This funding level will allow the Department to acquire emerging new technologies that will dramatically increase our military capabilities and retain our forces' technological superiority far into the future.

To ensure that we are able to meet our goal of maintaining readiness and increasing funding for modernization, we must carefully examine our internal operations and support activities to determine where we can lower costs and improve performance.

This effort requires that we undertake management reforms that improve our efficiency and effectiveness, while assuring that we are able to meet the diverse and uncertain challenges that will confront our nation in the 21st Century.

That process, of course, is already well underway and this Committee has made important contributions to it.

Through the base closure and realignment process approved by you and your colleagues, the Department has significantly reduced infrastructure costs. FY 1997 marks the cross-over year when the savings from base closures and realignments exceed the costs required to close bases. Over the five-year program submitted to Congress last month, BRAC will generate net savings of $17.8 billion. DoD estimates that the results of the four rounds of base closures and realignments will produce annual savings of about $5.5 billion when fully implemented.

Second, and again with Congressional support, the Department has undertaken a vigorous reform of the acquisition process. We are implementing the changes authorized by passage of the Federal Acquisition Streamlining Act of 1994 and the Federal Acquisition Reform Act of 1996. In addition, we recently approved DoD Directive 5000.1 and DoD Regulation 5000.2, making significant changes to DoD's procurement of goods and services. These initiatives, now in place, are beginning to show results and will lead to substantial efficiencies and savings in the future.

To complement those efforts, the Department has begun a broad, systematic review of its support operations to determine where we can improve overall performance at lower cost. This initiative, known variously as outsourcing, privatization, and business reengineering, offers significant opportunities to generate much of the savings necessary

for modernization and readiness. Outsourcing involves the transfer of a function previously performed in-house to an outside provider. Privatization is a subset of outsourcing which involves the transfer or sale of government assets to the private sector. Business reenginnering represents the redesign of both management and work processes, and may involve outsourcing and privatization.

Lessons learned from outsourcing

The benefits of outsourcing and competition are apparent every day in our national economy. They are not theoretical or based on uncertain assumptions. Over the past two decades, competitive forces in the global marketplace have driven companies to drive down costs and improve performance. To accomplish these goals, the most successful American firms have restructured their internal operations -- to focus on their core capabilities and outsource support operations. Companies report that outsourcing has enabled their senior managers to focus on their core tasks; improve service quality, responsiveness, and agility; obtain access to new technologies; employ more efficient business practices; and lower their costs.

Entire new industries -- and companies -- have grown to meet this demand for specialized services across a range of functions: aircraft and ship maintenance, inventory management, accounting and finance, internal audit, data center operations, software maintenance, computer network support, applications development, telecommunications, transportation services, facility management, and benefits administration. In 1996, these service industries will generate an estimated $100 billion in sales.

Surveys performed by a range of organizations all document the trend to more outsourcing. For example, a 1994 study conducted by Pitney Bowes Management

Services found that 77 percent of 100 *Fortune* 500 firms surveyed outsourced some aspect of their business support services.

The experiences of individual companies further illustrate the prevalence of outsourcing in the private sector. Canon guarantees photocopier replacement within 24 hours, but outsources the delivery of this service. Avis manages its rental car reservations with one of the largest data processing systems in the world, but outsources the data processing of its payroll. Chrysler manufactures engines, transmissions and exterior body skins internally, but outsources the remaining 70 percent of final product content. Similar examples exist in every successful American industry.

Many state and local governments also carry out effective programs to take advantage of the benefits of competition. Chicago, Indianapolis, Los Angeles, Philadelphia, Phoenix, and San Francisco among others have used competition and outsourcing to improve services and lower costs to their citizens.

Why Outsourcing and Competition Work

DoD should seek the same benefits of outsourcing enjoyed by the private companies and public institutions who have adopted an outsourcing strategy. Like the private sector, it allows the Department to focus on its core competency, improve service quality and responsiveness, reduce costs, obtain access to changing technologies, and employ more efficient and effective business practices.

In addition, we have the additional obligation of being responsible stewards of the nation's resources allocated to us. It is incumbent upon us to use better business practices to improve our efficiencies to insure that US taxpayers are getting the most value for their hard earned tax dollars. Most important, we must do so in the context of

our overarching mission.

Outsourcing introduces several beneficial characteristics into DoD support operations:

Competitive forces. Competition drives organizations to improve quality, increase efficiency, reduce costs, and better focus on their customer's needs. For DoD, competition can lead to more rapid delivery of better products and services to the warfighter, thereby increasing readiness.

Flexibility. Outsourcing provides managers with flexibility to determine the appropriate size and composition of the resources needed to complete tasks over time as the situation changes.

Specialization. Firms that specialize in specific activities are often able to perform more efficiently and offer higher quality service. In addition, they can generate a relatively larger business volume, which means that they typically can operate and maintain state-of-the-art systems more cost-effectively than other firms or the government. Outsourcing to such firms provides a means for the government to take advantage of technologies and systems that the government itself cannot acquire or operate economically.

Better management focus. In recent years, our nation's most successful companies have focused intensely on their core competencies -- those activities that give them a competitive edge -- and outsourced support activities. The activities that have been outsourced remain important to success, but are not at the heart of the organization's mission. Business analysts frequently highlight the fact that the attention of an organization's leaders is a scarce resource that should be allocated wisely.

This is equally true for the Department of Defense. Our core competency is one we can all agree on: conducting military operations and our focus must always be on doing that better than anyone else.

Outsourcing: DoD Objectives

The central focus of the outsourcing initiative is to maintain and improve our combat effectiveness. Outsourcing offers the opportunity to achieve that goal by generating savings for modernization, sustaining readiness, and improving the quality and efficiency of support to the warfighters.

To pursue this strategy, I established a comprehensive, ongoing DoD-wide review to identify functions that could be outsourced, analyze them to determine where outsourcing is cost effective, and begin the outsourcing process. The review involves the senior civilian and military leadership in the Military Departments, Defense Agencies, and the Office of the Secretary of Defense.

Outsourcing, privatization and competition offer the prospect of lowering costs and improving performance across a wide range of support activities which represent a sizable portion of the defense budget. In the current fiscal year, DoD will spend $93 billion on operations and maintenance functions.

As we embarked on this effort, we developed three criteria as the basis for outsourcing decisions. Activities will only be considered for outsourcing or privatization when they meet these conditions.

First, DoD will not consider outsourcing activities which constitute our core warfighting mission; that is, activities that the military leadership considers to be essential to the mission and which would create too much risk if we were to ask the private sector

to do it.

Second, a competitive market must exist for the activity. One of the criticisms of outsourcing in the past has been based upon an alleged lack of competition in the process. DoD can benefit most if market forces exist to drive organizations to improve quality, increase efficiency, and reduce costs.

Third, outsourcing the activity must result in best value for the government and therefore the U.S. taxpayer. We will conduct a best value analysis in each case, evaluating not only cost, but also past performance, to insure potential providers have demonstrated the ability to deliver the service in terms of reliability, timeliness, and quality.

Analyses of Department activities are still underway. These assessments will likely determine that a number of activities are not appropriate candidates for outsourcing or competition. However, the remaining pool of candidates will be sizable, and we expect the potential for increased savings and improved performance to be significant.

These savings will directly benefit modernization. To make this connection clear and to provide appropriate incentives to the Military Departments, I signed a memorandum on February 26, 1996, stating that the DoD Components will not have their outyear budgets reduced as a result of the savings they create through their initiatives, and that these savings should be dedicated to modernization.

DoD's Experience

Outsourcing, of course, is not new to the Department of Defense. Our own experience demonstrates that competition and outsourcing have yielded both significant savings and increased readiness for each of the military services.

Benefits have accrued across a broad range of functions in each of the services. A Center for Naval Analyses study of cost comparisons conducted between 1978 and 1994 concluded the Department now saves about $1.5 billion a year. On average, these competitions -- about half of which were won by government activities -- have reduced annual operating costs of these functions by 31 percent. The consistency of these results highlights the potential benefits to the Department from opening up a significant portion of the operations and support budget to competition.

The Defense Logistics Agency's (DLA) Direct Vendor Delivery and Prime Vendor programs illustrate the savings and improvements in readiness that DoD has achieved through business reengineering and outsourcing. Under these programs, suppliers deliver products directly to their DoD customers, rather than to a DoD warehouse for storage and subsequent distribution. The programs have made a tangible contribution to readiness. For example, DoD pharmaceutical customers now receive their requested goods 75 to 90 percent faster (within 24 hours) and 25 to 35 percent cheaper. These programs not only save resources, but do the job better.

There are numerous other examples of outsourcing's beneficial results. The Air Force has successfully outsourced all support functions at Vance Air Force Base and several bases overseas. It also contracts for maintenance for the KC-10 and F-117 aircraft and for software in the B-1 and B-2 aircraft. The Army has created a government-industry team to upgrade the Palladin artillery system. The Navy outsources a substantial amount of ship repair -- including maintenance on its most advanced surface combatants.

DoD's Outsourcing Review

The Department's review to date has focused on materiel management, base commercial activities, housing, finance and accounting, education and training, data centers, and depot maintenance. These functions represent support activities in which significant, competitive private sector capabilities exist and with which DoD has extensive experience.

Let me outline in more detail some of the specific areas within those functions which we feel have potential for significant savings.

Material Management. The material management review is focusing on three areas: disposal operations, distribution depots, and inventory control points. Reengineering disposal operations will permit placing many government disposal services in the market place. These actions are estimated to increase property sales by 50 percent, decrease operating costs by 10 percent, and significantly reduce the need for new capital investment.

In 1997, DoD plans to conduct pilot programs to privatize the distribution depots at Sacramento, California, and San Antonio, Texas. In order to take advantage of recent state of the art improvements in distribution technology, DoD will encourage contractors at both sites to reengineer business processes at the distribution depot; we will then evaluate the experience and results for potential expansion to other sites.

Later this spring, DoD will complete the business case analyses for the Armed Services' Inventory Control Points -- those activities responsible for management of inventoried spare parts, including cataloging, procurement, distribution, and disposal. These analyses will enable the Department to identify those specific functions where outsourcing could lead to cost savings and improved inventory response times, while still

ensuring readiness and program management support.

Base Commercial Activities. In the area of base commercial activities, the Department is currently conducting cost comparison studies encompassing about 150 functions at many different locations. Over the next two years we plan to expand the number of functions and locations being studied in search of opportunities to lower costs and improve performance.

Finance and Accounting. DoD has initiated a robust campaign to increase use of the IMPAC purchasing card. The IMPAC is a VISA card issued by the Rocky Mountain Bank Card System, under a contract with the General Services Administration, and is used throughout the Federal Government. Greater use of the card (permitted by the Federal Acquisition Streamlining Act) would dramatically reduce acquisition cycle time and the paperwork associated with making, and paying for, procurement actions --thus reducing costs and improving timeliness.

The Department has announced A-76 cost comparisons in three finance and accounting areas: debt claims management; facilities, logistics, and administrative support at DFAS centers; and bill paying for the Defense Commissary Agency. The Department plans to carry out a pilot program for outsourcing nonappropriated accounting and, by October 1, 1996, complete a plan for outsourcing civilian pay, as required by the National Defense Authorization Act for 1996.

Housing. In the 1996 Defense Authorization Act, Congress provided the Department with powerful tools that allow us to join with the private sector to leverage resources and obtain housing faster and more cheaply than we could using the traditional military construction process. These new authorities provide us the ability to guarantee or

provide direct loans, enter into limited partnerships, convey property and facilities, and provide differential payments to supplement service member BAQ/VHA. We have formed the Housing Revitalization Support Office, jointly staffed by the Services and OSD, to serve as the focal point of the knowledge and expertise necessary to maximize their use and serve as a catalyst for the application of these new tools.

Education and Training. The high technology demonstrated so vividly in the Gulf War demands highly trained personnel in both operating and supporting roles. That places a premium on extensive, cost effective training. Technology has also changed teaching and training methodologies. The Department is evaluating how these technologies affect training requirements and has met with industry to determine if it can adopt successful training management strategies from the private sector.

Data Centers. Through the base realignment and closure process, the Defense Information Systems Agency is consolidating its 59 data centers into 16 mega-centers. This consolidation is expected to produce net savings of $474 million from FY94-FY99 and thereafter annual steady state savings of $208 million a year. As a result of these consolidations and associated process reengineering actions, 57 percent of the operating budget for these mega-centers for FY96 will be for contracted services. Further analysis of the Department's activities in this area will be submitted to Congress, as requested in the Conference Report on HR 2126, the DoD Appropriations Act, 1996.

Depot Maintenance

Depots are a major part of our outsourcing initiative. The Department's depot maintenance policy focuses on maintaining required core capabilities in organic facilities. The core concept ensures that critical warfighting capabilities remain under the direct

control of warfighters. Core capabilities consist of the facilities, equipment, and skilled personnel necessary to ensure a ready and controlled source of technical competence to meet the Joint Chiefs of Staff's contingency scenarios.

It is important to note that not all critical or mission-essential weapon systems and equipment need be maintained in organic depot maintenance facilities. However, core depot maintenance capabilities are necessary to ensure our readiness to accomplish military missions. Simply put, core represents the amount of maintenance capability that the DoD Components must maintain in organic depot facilities to ensure that contingency operations are not compromised because of lack of essential depot maintenance support.

As required by the Defense Authorization Act of 1995, the Services conducted a core assessment to determine the organic capability necessary to preserve warfighting readiness and support the national security strategy. Their assessment was based on the methodology jointly developed by the Services. In their methodology, the starting point is the national security strategy and the appropriate weapon systems to meet the threat. The Services identified the numbers of specific weapons that would be used to meet the two MRC scenario; they also identified the quantities of weapons that would be used in non-combat support roles. Based on their military experience and judgment, the Services assessed the risk of supporting these categories of weapons in both the private sector and government facilities. In their judgment, weapons performing non-combat roles would represent potential outsourcing candidates. Weapons that would be used to meet the two MRC scenario would be performed in government facilities unless a demonstrated and robust capability exists in the private sector. In this latter case, these weapons would also become potential outsourcing candidates.

Two further considerations guide the analysis performed by the Services. First, before any candidate workload is outsourced to a private entity, the Services will undertake appropriate business case analyses to determine risk and feasibility. Second, non-core workload will be done in government facilities if there is no private sector source, if the private sector source is cost prohibitive, or if such work is required to ensure that the efficient operation of the government facility (i.e., to eliminate peaks and valleys in its workload to achieve level loading).

Based on this analysis, each of the Services calculated the workloads necessary to support Core capability requirements over the FY97-2001 program. By the end of the five-year program, the Air Force, Army, and Navy would maintain, respectively, 46 percent, 50 percent, and 50 percent of their depot work in their organic facilities.

This analysis clearly indicates that the Department can perform its work in a more efficient manner if the 60/40 rule is repealed. Distributing our work, as appropriate, among government facilities and the private sector will enable the Department of Defense to meet the national security strategy more efficiently and effectively.

Core capability requirements will change over time as a result of such factors as force structure changes, changing threats, introduction of new weapon systems, the aging or modification of existing weapon systems, or even a change in battlefield doctrine. For those reasons, it is necessary to review Core capability requirements on a regular basis. The Department intends to conduct such a review every two years.

The Department believes that it generally should not compete with private industry by performing depot work beyond that which is required to maintain Core capabilities. Once a depot is sized to Core, maintaining its ability to compete for non-

Core work will lead to added costs and inefficiencies. Specifically, the Military Services would have to pay added costs to maintain excess capacity and overhead in the depot and would not be able to manage efficiently the inherent changes that would occur in labor requirements. Moreover, numerous studies have highlighted the difficulty of ensuring cost comparability between government facilities and the private sector. As noted earlier, however, the Department will place non-Core work in government facilities when required to ensure efficient or cost effective operations.

Reliance on the private sector in this manner complements, but does not replace, organic capabilities.

The Involvement of Government Employees

The Department of Defense employs the same superior talent in its civilian workforce as in the military; indeed, DoD civilians consistently demonstrate impressive capabilities and dedication. Their innovation and accomplishments have been recognized on numerous occasions.

An example is the Innovation in American Government Awards presented annually by the Ford Foundation and Harvard University. Of the ten awards to federal government finalists last Fall, four went to DoD components. We are very proud of the people whose dedication to excellence and innovation achieves that kind of recognition. Our employees have made enormous contributions to America's national security strategy in the past and will continue to do so in the future.

The Department of Defense and its employees now confront a series of new challenges as we size our forces and capabilities to meet the national security missions of the 21st century. To meet the mission, the Department must determine whether some

activities can be performed more efficiently and effectively in the private sector.

To the extent that activities are transferred outside the Department, employees will face dislocation. We are committed to making the transition as humane as possible as we have done throughout the drawdown and the execution of BRAC decisions. We will utilize every tool available to assist in retaining, relocating, and retraining. Programs that support these efforts have been successful in the past. They are the reason that the Department has been able to hold involuntary separations to less than nine percent of the jobs eliminated over the past six years.

We will continue to consult with employees, their unions, and professional associations at all levels to include notifying them during development, preparation, and review of performance work statements and management studies.

DoD consults with unions and employee associations via its regular national consultation channels and the Defense Partnership Council. The Department works closely with its unions and employee associations to ensure that they are kept informed of potential changes affecting civilian employees. Information on outsourcing and privatization has been shared through the Defense Partnership Council and meetings with unions with national consultation rights.

We have also worked closely to form labor-management partnerships to address issues of common concern at bases across the country. At Kelly Air Force Base, Texas, the partnership between American Federation of Government Employees and federal managers was recently recognized with a National Partnership Award honorable mention citation by Vice-President Gore. Union and management representatives are working together on the Mission McClellan Executive Advisory Commission, a community based

organization which works on matters related to the privatization and conversion of McClellan Air Force Base, California.

Impediments to Benefiting from Outsourcing

Several statutory provisions, primarily in Title 10, singly or in combination, have complicated, delayed, or discouraged outsourcing, privatization, and competition.

The Department has prepared a legislative proposal to enable us to take advantage more fully of the opportunities of outsourcing. We look forward to working closely with you in the coming weeks to move this proposal forward.

In addition, we are working with the Office of Management and Budget to streamline Circular A-76 to make it more effective and easier to use.

Conclusion

Today's changing world demands that DoD change with it. To insure that our military forces maintain the successful combat effectiveness they demonstrated so well in Desert Storm and the skillful performance of the missions they have undertaken since requires that we make the most of the resources entrusted to us.

Achieving these goals in a time of fiscal limitations demands that the Department of Defense adopt proven management practices that make us more efficient, effective, and responsive. Outsourcing is such a management practice and its benefits have been proven both in the public and private sectors.

DoD's outsourcing initiative is a long-term effort to streamline its support functions further, giving our citizens the best value for their hard earned tax dollars and our men and women in uniform the capabilities they need to be successful on the battlefield.

Mr. BATEMAN. Thank you, Secretary White. General Viccellio, we would be pleased to have any statement you choose to make before we turn to the questioning.

STATEMENT OF GEN. HENRY VICCELLIO, JR., COMMANDER, AIR FORCE MATERIEL COMMAND

General VICCELLIO. Thank you, Mr. Chairman and members of the Readiness Subcommittee. It is a pleasure to be here.

We appreciate the continuing support of this subcommittee for our troops in the field who are doing our mission, and particularly those initiatives that bolster our force readiness. And I would like to say the same to those of you who represent the folks in our various bases within AFMC who are not members of the subcommittee.

The subject of outsourcing selected portions of our currently organic depot maintenance activity and our structure is both important and timely. It seems important in the sense that our Nation's commercial sector has traditionally played, and today continues to play, an important and productive role in our depot capabilities. It is timely in that a dramatically changed world situation is driving changes in both our force sustainment needs and the manner in which we might meet those needs.

Today's Air Force depot structure and logistics philosophy are forged by the experiences of World War II and shaped through more than four decades of cold war. We face the imperatives of sustaining large air forces deployed worldwide against a formidable foe and potential conflict envisioned to occur on a global scale and of a protracted nature.

We established a robust organic depot infrastructure that, at one time, included 11-air-materiel installations, sized to overcome time consuming transportation and somewhat uncertain logistics command and control systems by pushing, by manufacturing, producing and repairing large amounts of supplies and equipment to our fielded forces.

Faced with a perceived risk to our very national survival, we emphasized policies and we were supported by legislation that ensured substantial organic production capacities.

The fall of communism and the ensuing decline of the Soviet Union presents our Nation with a fundamentally altered set of national security imperatives. For the foreseeable future, we will face the possibility of regional conflicts, perhaps not unlike Desert Storm, as well as the operations other than war that have captured so many headlines over the past 5 years.

Our success in recent contingencies has illustrated to us in logistics, among other things, the potential for technology to transform our logistics needs through dramatic improvement and the reliability of our modern weapons systems and the impacts of in-transit visibility on our assets and a focused transportation system.

As we look forward to the future, several observations are worth mentioning. First, day-to-day readiness or preconflict logistic support has replaced mass sustainment or support during the conflict as the predominant contribution and the principal focus of our logistics activity. Second, the Government owned and operated infrastructure that supports that activity seems excessive and needs re-

duction. Of course, this is an initiative that was given both direction and timing by the 1995 BRAC Commission.

Finally, the role and contributions of our Nation's commercial sector in that activity, which is already substantial by nearly any measure, warrants renewed consideration and review.

It is the confluence of all of these trends and factors, in my view, that make reconsideration of the organic and the contracted mix in our depots the right step for our Nation and our Air Force. An important point to add is this would be the case, BRAC or no BRAC and closure or no closure. The subject warrants discussion and application well beyond the gates of our two air logistic centers that are slated for closure.

The fact that outsourcing appropriate logistics and support activities offers important command-wide advantages while helping to mitigate the impact of our closures makes it an option we want to pursue. We are doing so with due caution, as was pointed out by Secretary White, and in consideration of all of our applicable statutes and policies and, I might point out, with some measurable success in a number of areas.

Which brings me to at least one of the issues under consideration today. Repeal or mitigation of title 10, U.S. Code 2466, which is commonly known as 60–40, has been considered in both Houses of Congress. I would ask members of this subcommittee to support the same.

The 60–40 rule and its assurance of predominant organic capacity may have served us well in a bygone era of large forces and threat of global contract and push sustainment requirements. But in an area of focused and responsive support and day-to-day readiness, it stands as an impediment to sound business management and inhibits initiatives which could keep today's smaller forces modern and ready.

There are those who feel additional involvement by the commercial sector in defense depot activity puts America's security at risk. I do not agree. There are those who feel that the repeal of 60–40 could lead to the eventual dismantlement of our organic logistics infrastructure. Not only do I not agree, but I feel that outsourcing may well prove to be a principal tool not just in sustaining but in growing the size and in keeping up the tempo and promoting the efficiency of our nonclosing installations.

Mr. Chairman and members of the Readiness Subcommittee, the concept of outsourcing carefully selected portions of our logistics activity is not some misguided venture. In our view, it is based on sound experience on working with the private industry and offers distinct opportunities and potential advantages that I look forward to discussing with you.

Thank you each once again, for your continued support for our men and our women in uniform.

[The prepared statement of General Viccellio follows:]

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE

HOUSE NATIONAL SECURITY COMMITTEE

SUBCOMMITTEE ON READINESS

SUBJECT: DEPOT MAINTENACE ISSUES

STATEMENT: GENERAL HENRY VICCELLIO, JR, COMMANDER
AIR FORCE MATERIEL COMMAND

16 APRIL 1996

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BIOGRAPHY

UNITED STATES AIR FORCE

Secretary of the Air Force
Office of Public Affairs
Washington, D.C. 20330-1690

GENERAL HENRY VICCELLIO JR.



General Henry Viccellio Jr. is commander of the Air Force Materiel Command which is headquartered at Wright-Patterson Air Force Base, Ohio. The Air Force Materiel Command researches, develops, tests, acquires and provides logistics support necessary to keep Air Force units and weapon systems in readiness, and to sustain their operations in peace and war. The command manages these systems through 21 specialized centers from their inception on the drawing board to retirement from the inventory.

The general was commissioned following graduation from the U.S. Air Force Academy in 1962. He has held a variety of assignments in flying and logistics fields, as well as command positions at the wing, center and Air Staff levels. He is a command pilot with more than 3,300 hours in fighter aircraft, including 235 combat missions in Southeast Asia.

General Viccellio and his wife, Debbie, have a daughter, Pilar, and a son, Benjamin.

EDUCATION:

1962 Bachelor of science degree, U.S. Air Force Academy, Colorado Springs, Colo.
1968 Olmsted Scholar, National Autonomous University of Mexico, Mexico City.
1969 Master of arts degree in Latin American studies, American University, Washington, D.C.
1973 Armed Forces Staff College, Norfolk, Va.

ASSIGNMENTS:

1. June 1962 - September 1963, student, pilot training, Webb Air Force Base, Texas
2. October 1963 - June 1964, student, F-100 combat crew training, Luke Air Force Base, Ariz.
3. June 1964 - October 1965, F-100 pilot, 309th Tactical Fighter Squadron, Homestead Air Force Base, Fla.
4. October 1965 - October 1966, A-1E pilot, 602nd Fighter Squadron, Udorn Royal Thai Air Force Base, Thailand
5. October 1966 - October 1968, Olmsted Scholar, National Autonomous University of Mexico, Mexico City
6. October 1968 - June 1969, student, master of arts degree in Latin American studies, American University, Washington, D.C.
7. June 1969 - August 1970, Air Staff Training program, staff officer, directorate of concepts and doctrine, Headquarters U.S. Air Force, Washington, D.C.
8. August 1970 - November 1971, F-4D maintenance officer, 7th Tactical Fighter Squadron, Holloman Air Force Base, N.M.
9. November 1971 - January 1973, F-4D flight commander, 36th Tactical Fighter Squadron, Osan Air Base, South Korea
10. January 1973 - July 1973, student, Armed Forces Staff College, Norfolk, Va.
11. July 1973 - October 1975, liaison officer, U.S. Senate
12. November 1975 - April 1976, chief, standardization and evaluation division, 33rd Tactical Fighter Wing, Eglin Air Force Base, Fla.

13. April 1976 - November 1976, operations officer, 59th Tactical Fighter Squadron, Eglin Air Force Base, Fla.
14. December 1976 - May 1977, commander, 58th Tactical Fighter Squadron, Eglin Air Force Base, Fla.
15. May 1977 - November 1977, assistant deputy commander for operations, 33rd Tactical Fighter Wing, Eglin Air Force Base, Fla.
16. November 1977 - March 1981, chief, rated officer career management branch, Air Force Manpower and Personnel Center, Randolph Air Force Base, Texas
17. March 1981 - September 1981, vice commander, 507th Tactical Air Control Wing, Shaw Air Force Base, S.C.
18. October 1981 - March 1983, vice commander, later, commander, 56th Tactical Training Wing, MacDill Air Force Base, Fla.
19. March 1983 - June 1985, commander, 1st Tactical Fighter Wing, Langley Air Force Base, Va.
20. July 1985 - September 1986, vice commander, San Antonio Air Logistics Center, Kelly Air Force Base, Texas
21. September 1986 - April 1989, deputy chief of staff for logistics, Headquarters Tactical Air Command, Langley Air Force Base, Va.
22. May 1989 - September 1989, vice commander, Headquarters Tactical Air Command, Langley Air Force Base, Va.
23. September 1989 - February 1991, deputy chief of staff for logistics and engineering, Headquarters U.S. Air Force, Washington, D.C.
24. February 1991 - May 1991, deputy chief of staff for logistics, Headquarters U.S. Air Force, Washington, D.C.
25. May 1991 - December 1992, director, the Joint Staff, Washington, D.C.
26. December 1992 - June 1995, commander, Air Education and Training Command, Randolph Air Force Base, Texas
27. June 1995 - present, commander, Air Force Materiel Command, Wright-Patterson Air Force Base, Ohio

FLIGHT INFORMATION:

Rating: Command pilot
Flight hours: More than 3,300
Aircraft flown: F-100, A-1E, F-4D/E, F-16 and F-15

MAJOR AWARDS AND DECORATIONS:

Defense Distinguished Service Medal
Distinguished Service Medal
Legion of Merit with oak leaf cluster
Distinguished Flying Cross with oak leaf cluster
Meritorious Service Medal with oak leaf cluster
Air Medal with 11 oak leaf clusters
Republic of Vietnam Gallantry Cross with Palm

EFFECTIVE DATES OF PROMOTION:

Second Lieutenant	Jun 6, 1962
First Lieutenant	Dec 6, 1963
Captain	Dec 6, 1966
Major	Mar 1, 1971
Lieutenant Colonel	May 1, 1975
Colonel	May 1, 1978
Brigadier General	Oct 1, 1984
Major General	Aug 1, 1987
Lieutenant General	May 1, 1989
General	Dec 1, 1992

(Current as of August 1995)

Hearings - Opening Statement - General Viccellio

Good afternoon Mr. Chairman, members of the Readiness Subcommittee. It's a pleasure to be here - we appreciate the continuing support of this subcommittee for our mission, the initiatives that bolster our forces readiness, and your care for the people working hard to sustain our capabilities in the field.

The subject of outsourcing selected portions of our currently organic depot maintenance activity and structure is both important and timely. It is important in the sense that our Nation's commercial sector has traditionally played, and today continues to play an important and productive role in our depot capabilities. It is timely in that a dramatically changed world situation is driving corresponding changes in both our force sustainment needs and the manner in which we might best meet those needs.

Today's Air Force depot structure and logistics support philosophy were forged by the experiences of WWII and shaped through more than four decades of Cold War challenges. We faced the imperative of sustaining large air forces, deployed worldwide against a formidable foe in potential conflict envisioned to occur on a global scale and be of a protracted nature. We established a robust organic depot infrastructure that at one time included 11 Air Materiel installations, sized to overcome time-consuming transportation and uncertain logistics command and control systems by pushing...producing, manufacturing, and repairing large amounts of supplies and equipment to our fielded forces. Faced with a perceived risk to our very national survival, we emphasized policies, and were supported by legislation that ensured substantial organic logistics production capacities.

The fall of communism and the ensuing decline of the Soviet Union presents our nation with a fundamentally altered set of national security imperatives. For the foreseeable future, we'll face the possibility of regional conflicts not unlike Desert Storm, as well as the "operations other than war" that have captured so many headlines over the past five

years. Our success in recent contingencies has illustrated, among other things, the potential for technology to transform logistics needs through dramatic improvement in the reliability of our modern weapon systems and the impacts of intransit asset visibility and a focused, responsive transportation system.

As we look toward the future, several observations are worth mentioning. First, day-to-day readiness, or preconflict logistics support, has replaced mass sustainment, or support during the conflict as the predominant contribution and principal focus of our logistics activity. Second, the government owned and operated infrastructure supporting that activity is excessive and needs reduction - an initiative given both direction and timing by the 1995 BRAC Commission. Finally, the role and contribution of our nation's commercial sector in this activity--already substantial by any measure--warrants renewed consideration and review.

It is the confluence of all these trends and factors that make reconsideration of the organic/contracted mix in our depots the right step for both our nation and our Air Force. An important point to add is that this would be the case BRAC or no BRAC, closure or no closure, and the subject warrants discussion and has application well beyond the gates of our two Air Logistics Centers slated for closure. The fact that outsourcing appropriate logistics and support activities offers important command-wide advantages while helping to mitigate the impact of our depot closures makes it an option we want to pursue; we are doing so with due caution, and in consideration of all applicable statutes and policies, and with measurable success in a number of areas.

Which brings me to at least one of the issues under consideration today. Repeal or mitigation of 10 USC 2466, commonly know as 60/40, has been considered in both houses of Congress. I would ask members of this Subcommittee to support the same. 60/40 and its assurance of predominant organic capacity may have served us well in a bygone era marked by large forces, the threat of global conflict and "push" sustainment. In an era focused on responsive support and day-to-day readiness, however, it stands as

an impediment to both sound business management and good government, and inhibits initiatives which could help keep our smaller, post-Cold War forces modern and ready.

There are those who feel additional involvement by the commercial sector in defense depot activity puts America's security at risk. I do not agree.

There are those who feel that repeal of 60/40 would lead to the eventual dismantlement of our organic logistics infrastructure. Not only do I disagree, but I feel that outsourcing will prove to be a principal tool not just to sustain, but to grow the size, sustain the tempo, and promote the efficiency of our non-closing installations.

Mr. Chairman, members of the Readiness Subcommittee, the concept of outsourcing carefully selected portions of our Air Force logistics activity is not some willy-nilly, misguided venture. In our view, it is based on sound experience in working with the commercial sector, and offers distinct opportunities and potential advantages that I look forward to discussing with you. Thank you each, once again, for your continued support for our men and women in uniform.

Mr. BATEMAN. Thank you very much, gentlemen. Thank you, Secretary White. The Chair has a number of questions it would like to pose, but in terms of the hour and the circumstances I am going to submit my questions for the record. If it is possible, Mr. Secretary, we would like to have the responses in a week, because we have so little time and it is so precious as we move toward markup.

Mr. WHITE. Yes, we understand, Mr. Chairman. We will do that.

Mr. BATEMAN. Mr. Sisisky.

Mr. SISISKY. I would like to do the same thing, Mr. Chairman. It's nice to have you here, Mr. Secretary. As you know, I have been very vocal in the last month, and I have really been vocal basically to slowdown what you are getting ready to do, at least what I perceive you are ready to do. I am not sure that you are ready to do it, but I perceive that. Basically, it was going wholesale rather than retail.

Now I have to sit and listen to my constituents who are Federal employees. And whether it is true or not—you know, I have a major naval shipyard down there and I tell them we are safe. They have to keep the Norfolk Naval Shipyard. They have 120 ships in Norfolk and it makes sense to have that. We have all kinds of private companies down there and they have been dividing up the work. But I am going to tell you something, no matter what I tell them, they are very concerned. And that is a disaster for us because if we lose the young workers—let me explain the young workers to you. We have opened up the apprentice school again because we have found out that we cannot just hire off the street. We have got to grow these people. You are dealing with nuclear and other composites, and things like that. You have got to grow them. You just cannot hire them off the street.

This has been my concern and that is the reason I elevated the noise level a little bit. The bottom line is the national security of this Nation, and whether we take a chance in doing this, whether it is 60–40 or 70–30. You know, we tried 70–30 last time—or was it 80–20? I forget. And we can almost do it this time. But I think all of us want to be responsible.

I worry, and really worry, about the future. I said this morning that, basically these things exist for war. That is what they are there for. I mean, we do not need a military if we are not doing that. Looking at the OPTEMPO right now—and while I have got you here I want to tell you that I am not in favor of cutting any more forces out of any service. The OPTEMPO is unbelievable. Fifty-eight percent of the entire U.S. fleet is at sea and on station. The Army is all over the place. The Air Force has parked planes in Jordan, Bahrain and God knows where else.

So the OPTEMPO—when we were in the Cold War and we had 350,000 troops or 400,000 troops in Europe, they were with their families. They are not with their families any more. So, this whole panorama of the service people and privatization. Who could be against saving money? I said it this morning, that you cannot be against saving money.

But do you save money by the comptroller—and I am not mentioning individuals—doing the bottom line, or do we do the bottom line based on national security? That is the real question. The core

is important; there is no question about that. But I do worry that we may be going too fast. And my thing in life—and I am not an individual who is destructive. I am probably the most nonpartisan person in this place, but I do worry that we may be going too fast. Last year, under the chairmanship of Mr. Bateman, we allowed some experimentation and said, let's do these things. I mean, it is hard to say no. But the real problem, the bottom line with me, is that we do not know whether it will save money or not in the end. Actually, I looked at the BRAC thing, it is costing us money.

Plus the fact, I asked a question last week—as you know the Department of Energy budget is in our budget, and I asked somebody—not last week, it was 2 week ago. I asked somebody from the Energy Department, an assistant secretary, and I said, how many bids did you have on Savannah River? One. Where is the competition? And you know what he said? He said, we are going to do a should-cost. We aren't that smart to outclass these corporations who are skilled in that field.

That is what worries me. Are we going to really have competition? You said in your statement that we save 31 percent. But we save 31 percent by competition, the competition in the private sector.

Let me just tell you what the real problem is that you should be looking into. I will use the shipyard as an example. Three years ago we had 13,000 employees. Today we have 6,000 or 7,000 employees. We have 2,000 acres of land with buildings that are not being used, and you know something funny, we have a machine shop there that is the state-of-the-art. By the way, this is a national monument for industry, if you ever looked at that yard. They had seven—believe it or not—slips in the dry docks which everybody wants.

But unless we break down, these shipyards can reduce their overhead by producing for the Air Force at Langley. They have got a machine shop that is absolute state-of-the-art. Everything is computerized. We could do business with Oceana because NADEP is closed down there. These are the things that we need to worry about.

If you want to save money, that is the way you will save money, if you can reduce the overhead in these places. We are doing it now. We are getting 12 destroyers at our home port right in the shipyard, believe it or not. And we are starting to do that. But if we can break down these laws and the attorneys that you have in your Department to give them the right to save money, to reduce the overhead, I am telling you, we will be able to repair ships. We will be able to do a lot of things that we need to do. And that is my concern.

Dr. WHITE. I share your concern, Mr. Sisisky, as you know. The bottom line, obviously, is national security; the readiness and capability of our forces. This year with BRAC we have reached the crossover point and we are now beginning to make money off BRAC as opposed to spending money on BRAC. We think competition is important. As I indicated in my statement, we think it is critical in these areas that competition drives our choices.

It is very important that we do this in a measured way. We are now talking about wholesale outsourcing. We are not talking about

massive changes in what we are doing. We are talking about measured changes where we have been able to evaluate what the opportunities are, what the cost savings are, what the benefits to us are in terms of our core competencies, in terms of the technological change that we need, and in terms of the flexibility that we need.

So in these various cases, even when we increase the number, for example, in the base operating support area, we are going to increase the number by several thousand full-time-equivalents in terms of what we study this year. We are talking about less than 5 percent of the total base operating structure. I indicated to you in terms of the depots talking about 10 percentage points at most, from the 60 percent to the 50 percent.

At the same time, as General Viccellio and others can attest to here, we are trying to find ways to increase the efficiency of our depots, to encourage the private sector to be involved in our depots, and we are having quite some success with that. We anticipate in the Air Force that, in fact, over the 5-year period the remaining depots will increase in size, not decrease in size. So we are not in the business here of——

Mr. SISISKY. Even with DBOF?

Dr. WHITE. Yes, sir.

Mr. SISISKY. That's hard to believe.

Dr. WHITE. So our objectives, I think, are the same as yours. We want to do it carefully. We want to do it in a measured way, but we want to have the flexibility to be able to execute the responsibilities that we have to do a better job than we are doing today.

Mr. SISISKY. Thank you.

Mr. BATEMAN. Thank you, Mr. Sisisky. Mr. Cunningham.

Mr. CUNNINGHAM. Thank you, Mr. Chairman.

Mr. Secretary, I think many of the members, not just on this side of the aisle but the other side of the aisle as well, have a problem that calling wolf too many times leaves a lack in credibility. Let me explain.

We went through a modernization hearing in which the Secretary stood up and told us that everything was rosy with all services. That the President's $39 billion in 1997 would satisfy everything instead of the $60 billion that General Shalikashvili told us that we needed. And they told us, no, that was not needed. Then 3 days later, Admiral Owens, who is retiring and was not beholden to his job because of the administration, released a memo that General Shalikashvili put to the President saying this is going to devastate national security and hurt the two MRC.

Then you look at the numbers and how they come up with the numbers that you are going to—inflation will never go higher than 2.5 percent over the next 7 years—have BRAC savings and that you are going to have acquisition reform. Well, I do not know who smokes what, but that just will not happen. And if you are relying on those kind of figures for this country's national security, it is not good.

It seems like the definition of what the administration has as a definition for national security and the actual numbers are far different from this particular committee, on both sides of the aisle. Any time that the administration wants to justify things you come

up with numbers. Here we have GAO testifying and saying that your numbers are not correct.

I also looked at the Air Force. In the first BRAC both Navy and Air Force had six depots. The Navy gave up three, the Air Force kept six. He who controls depots controls readiness. In the next BRAC the Air Force was forced to draw down to three depots. If you have three depots and you privatize two more, now you also have an advantage in the depots. Plus, you cannot tell me that you can operate three depots and privatize the other two and not have it cost more. If that is the case, then our whole case in the Contract With America should go forward and we ought to privatize government basically, and we would have a heck of a lot of savings.

But the bottom line is that it seems like any time this administration wants to justify something it comes up with a false set of numbers. I do not believe that there are these cost savings in it. It is convenient that when the President was in the State of California, which is critical in an election year, it just so happens that during BRAC he is now going to privatize that.

BRAC is supposed to take out the politics. You are asking us to bypass the BRAC decisions. You are also asking us to violate the law. Most of us are not willing to do that, Mr. Secretary. I think the only thing, if I was looking at the other side of it, is that maybe there is some surge capability if we get into a conflict, that we have got the private sector geared up to where they can help us more in that particular area. Yes, I think we are lacking in surge capability even though we have three and three. That would be a good point to discuss.

But I can tell you, I just looked at past testimony from the Secretaries and refuted absolutely by General Shalikashvili's memo when they come before us. I understand, you work for the President and you have got to state that line, and I understand the services. But, I want to tell you, General Fogelman stood right there with General Krulak, Admiral Borda, and the Army and they stood up and were counted and they said, if you do this procurement rate of $39 billion instead of the $60 billion we need, and you do it until 2001, you are going to destroy our national security.

And guess what, the President's balanced budget 7-year CBO, when he has 90 percent of his discretionary cuts, guess when they take place? In the year 2001. Do you think the other side of the aisle is going to cut discretionary programs and social programs and increase procurement in defense at the same time? Absolutely not. So let's sit down, let's cut to the quick, and let's get straight down to it on how we can make savings in this and how we can support national security, because I do not feel that we are doing that in this hearing, Mr. Secretary.

Dr. WHITE. Mr. Cunningham, I guess you and I disagree. I think that is why we are here. That is what we have been spending our time on. We are making savings from BRAC. We are following the BRAC laws. We are not violating the law. We are executing against the BRAC legislation. As I indicated earlier, we would like some relief from that in terms of some of the constraints that we have because we think we can do a better job. That is what we are talking about.

We think we have a strong modernization program. I spent a lot of time on that modernization program and I think it is a very strong modernization program. We do need BRAC savings, but we need our top line.

Mr. CUNNINGHAM. At the $39 billion level?

Dr. WHITE. In the first year at the $39 billion and then it grows, as you know, to $60 billion in the outyears. It goes up by some 40 percent over the period. It is a substantial increase over what it was before.

In my judgment, Mr. Cunningham, we need to be able to do a better job. We would like to not live under the constraints we live under today. We think we can demonstrate to you that we can generate those savings. We think we can demonstrate that we can, in fact, do a better job. You have helped us in that in acquisition reform, in BRAC, in housing authorities. This is the same situation here. If we can get your support, we think we can deliver here, and we are delivering there.

Mr. CUNNINGHAM. If you can prove to me in writing, you have my support. I just do not believe that.

Dr. WHITE. Sir, I cannot prove it if I do not get the opportunity to do it.

Mr. CUNNINGHAM. I understand.

Mr. BATEMAN. The Chair will, after this exhortation, turn to Mr. Browder. If you would, members, try to make your questions specific to the extent that we will be eliciting more information. We have heard the Secretary's presentation. None of us really disagree with the objectives and what he said. But it speaks basically of conclusions which are satisfactory to him, but we need to test whether or not we would come to the same conclusions. So, what we need is information in order to be able to say, yes, we share that belief and those goals and believe they are obtainable, or we do not think they are realistic. So try to be specific.

Mr. BROWDER. Thank you, Mr. Chairman. It is a tough day. Secretary White, you are facing an audience here that has been looking forward to this day for a long time.

Dr. WHITE. So have I, Mr. Browder.

Mr. BROWDER. With a GAO report like this I can imagine that you will be happy to cross this day off your calendar. I will ask I think about three questions or points that I think are new.

Did I hear you right, Dr. White, when you said that with privatization, with these things that you have in mind, the remaining depots will have more work?

Dr. WHITE. I said that it is our estimate that in the Air Force, as we go through this program—and General Viccellio can speak in detail—it is our estimate that, in fact, what will be left in the three ALC's will go up.

Mr. BROWDER. That may be true there, but I have looked at the Army work and the fact is that if you do this, with all of these changes, in 10 years there will be no depots. You just cannot do away with 60–40. You cannot go into this privatization. You cannot take the new weapon systems and put them out in the private sector. You are going to end up with depots with no work. You either have to have a core definition to require the work—and we are talking about a declining defense budget—or something like 60–40

to keep those depots operable, or else you are going to close them just because of the principle of BRAC: too much excess capacity.

But I would like to ask you a specific one that I am interested in. The M–113 family of vehicles, do you consider that a core system?

Dr. WHITE. General.

General COBURN. Congressman Browder, the 113 is indeed a core system.

Mr. BROWDER. As such would its maintenance, therefore, remain in the public sector?

General COBURN. The BRAC language, sir, says that the Bradley fighting vehicle system and related work shall remain at Red River. All other work shall go to either another depot or be privatized. We looked at the 113 very carefully and determined that is core workload. We intend, therefore, to keep it in the public sector. Specifically, we intend to transfer it to Anniston.

Mr. BROWDER. Thank you very much. I guess I will move on to the next question.

Dr. White, let me roll a stinkbomb over that way. I have heard a lot of discussion and concern among our members about—as we go through the downsizing, the privatization issue, that we have a lot of people in uniform involved in this process, extended process where today you identify something that may take place next year. And really a concern that a lot of people are participating in decisions who maybe next year, or in 14 months or whenever, will no longer be wearing a uniform and they will be employed in the private sector. And there has been some concern about that.

There is concern about people who are not in uniform who came from the private sector, who are in the Defense Department and who are going back to the private sector, making some pretty tough decisions that our country is having to make. A lot of members are having difficulty dealing with that, looking at their installations.

We do not want to prejudge anybody, but we have rules regarding Members of Congress and what we can do after we leave here. Do you think that it would be appropriate for Congress to look at placing some restrictions on the employment or the lobbying practices of members of the military who are involved in BRAC-type decisions or downsizing decisions, going to work for the private sector and then lobbying Congress regarding decisions affecting that workload?

Dr. WHITE. First of all let me say, Mr. Browder, that I operate, as I am sure you do, under the assumption that these people are honorable and they are going to obey the law. Second, having been versed in it by my own lawyer as well as by Government lawyers, we live under a large number of ethics restrictions which are appropriate. If, in fact, you and your colleagues think that there is some evidence or some concern that those laws are not tight enough to satisfy you, in terms of the behavior of people making decisions, I would urge you to change the law and improve it.

Mr. BROWDER. Thank you very much because that is a concern. I understand that some of the restrictions that we had have been repealed. So, I think this is an area, Mr. Chairman, that the committee should take a look at, because we assume that everybody is honest. I assume everybody up here is honest, but we still have

those requirements that restrict us. I think it would be worthwhile not only to avoid any problems, but to avoid the appearance of any problems as well, and for us to look at that issue.

Mr. BATEMAN. If I may, let me get into this. I hope all the assumptions that were just made are correct. I believe they are. In any event, whatever needs to be done is not in the purview of this subcommittee and not really a matter for this day's hearing. So I think we ought to proceed with the questions that really focus on this subject matter.

Mr. BROWDER. Thank you, Mr. Chairman, for redirecting that, but I will leave the stinkbomb out there for perhaps another subcommittee or full committee hearing. Thank you.

General VICCELLIO. Mr. Browder, could I have just a moment to respond in terms of your first question about the future of the nonclosure depots? As we make whatever generalizations about what we think is the art of the doable, the art of the advisable at our two closing depots, McClellan and Kelly, there is an awful lot of work there that for one reason or another we will probably not attempt to privatize.

There is some materiel management work there that we will probably remove in its entirety to the remaining bases around the Air Force. There is some work that will be core, we will want to keep organic. There is some that is prescribed by law, specifically, some common use electronic workload. There is some that is of a classified nature, such as the cryptological work that is done in San Antonio. There is some of a sensitive nature like our nuclear weapons depot activity which we intend to keep organic and move to Ogden, UT. There are others that will not be competitive. At Sacramento, we have the overhaul of some vans and containers in which deployable activities are sent overseas during wartime. We have tried that in the past, and there is not much interest of a competitive nature. And there will be more of those.

If you ask me to kind of prognosticate where we are headed here, I would guess that if we meet our expectations at both Sacramento and Kelly we will see somewhere between 5,000 and 7,000 workers worth of work move to the remaining depots, which is part of the reason I feel that they will grow.

There is one other factor that we have seen as we have started into this process and that is a surprising response on the part of industry. Although a lot of the organizations that represent industrial interests indicate that part of the problem is that industry has excess capacity as well, we are seeing an increasing number of activities. Companies talk to us about their interest in coming to our depots and sharing our capacities to do either work that they do for us now somewhere across the country or to do private work. And there are provisions in law to let them do that.

We have two at Warner Robins that are talking to us. We have two opportunities at Oak City, and we have several companies interested in the landing gear shop at Ogden. So, those are some of the activities through which I feel confident that our remaining depots will remain robust, vibrant activities.

Mr. BATEMAN. Now the gentlelady from Florida, Mrs. Fowler.

STATEMENT OF HON. TILLIE FOWLER, A REPRESENTATIVE FROM FLORIDA

Mrs. FOWLER. Thank you, Mr. Chairman, and welcome, Mr. Secretary. First, I have to tell you that the Department's temerity in highlighting the F–117 Stealth fighter as an example of a weapons system that has been both successfully interserviced and successfully contracted out amazes me.

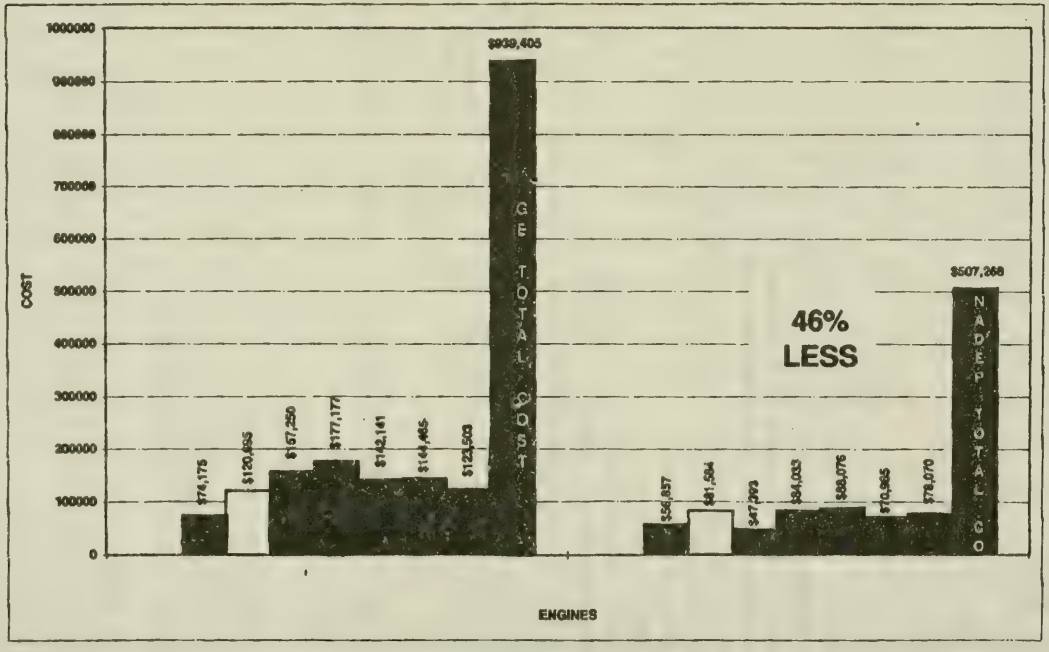
I fought tooth and nail with DOD for over a year to bring the F–1D2 variant of the F–404 engine which powers the F–117, as you know, to NADEP Jacksonville from the private contractor; a contractor that had performed depot engine work on that for a decade. My efforts were repeatedly stymied at every step of the way by DOD which finally, under protest, agreed to contract a private accounting firm, Coopers & Lybrand, to compare public versus private support costs. All I wanted was a fair comparison.

Coopers & Lybrand found that NADEP Jacksonville was significantly less costly and recommended sending the work there. But, even then, DOD held up its decision in an effort to keep half of the workload at the private contractor. In the end, the evidence irrefutably favored NADEP Jacksonville.

Now this chart, that I want to have entered into the record, shows the savings that have been realized by DOD in performing this work at NADEP Jacksonville, a 45-percent savings to DOD between the hourly rates the contractor had been charging and the NADEP's cost this year. We can only wonder how much might have been saved had we transitioned this work to the depot 5 years earlier. But, of course, under your new policy that would never happen.

[The following information was submitted for the record:]

NADEP TOTAL COST
VERSUS
GE TOTAL COST
F1D2 ENGINE



4/4/96

Mrs. FOWLER. Now, the Department's new policy—DOD assures the Congress that the private sector can assume wartime support of some mission-essential systems and components with acceptable risk. However, I found it very striking that now a comprehensive risk analysis appears to have been done to support this new policy which represents a fundamental change from the way we have addressed core requirements in the past.

So, I am interested in what data has been assembled and analyzed to support this conclusion. What is the Department's definition of acceptable risk? What methodology or risk analysis did you use to arrive at this definition, and how does the Department justify going from a situation in which 100 percent of a workload is identified as being core today but changes to zero percent tomorrow? And there are some examples out there.

Third, Mr. Secretary, it seems to me that essentially you are saying that the Congress should trust the Pentagon; it will do the right thing when contracting out. However, I have got to tell you that when I look at the Department's plans for the privatization of facilities at Sacramento and San Antonio it is striking to me that systems that are undeniably mission-essential: the F–100 jet engine, for example, which powers the F–15 and F–16, are apparently to be privatized. Our C–5's and the TF–39's which power them are to be worked in the private sector, and the list goes on and on.

I believe there are serious risks in privatizing these workloads. What about strikes, bankruptcies, mergers, lawsuits over technical data as is occurring now in the case of the AIM–9X where DOD provided one company's proprietary data to another? What about instances where the company providing support for a given system decides that that system just is not lucrative enough to continue to work on as was the case recently when the manufacturer of the TF–34 combustion liner decided to leave the business?

Just since January of this year employees at Boeing, Engel Shipbuilding, and General Motors have all gone on strike. Currently, some 4,000 Lockheed Martin employees are on the verge of striking because of a dispute over who is going to perform janitorial services. What are we supposed to tell our Marines who are taking fire on the beach when they need depot repairs done now and the company contracted to support their mission-essential system is on strike or has gone belly up or decided they do not want to do it anymore?

Finally, I have got to say I noticed in your report called, "Improving The Combat Edge Through Outsourcing," some interesting references to the desirability of contracting out not only depot-level work but intermediate level aircraft repair, aircraft engine repair, missile work, and combat vehicle work as well. I would be real interested if our uniformed guests in the second row might want to comment sometime about their perspectives of this; how an admiral would feel if he deploys a carrier for a 6 month cruise. Is he going to have contract personnel on board to perform intermediate level maintenance on weapon systems?

So, I would appreciate it if you could answer some of these, and any you cannot answer now if you could do it for the record.

[The following information was submitted for the record:]

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
TRANSCRIPT PAGE 106, LINE 2544
QUESTION NUMBER (HN-22-031)

Question: I believe there are serious risks in privatizing these workloads. What about strike, bankruptcies, mergers, lawsuits over technical data, as it's occurring now, in the case of the AIM-9X, where DOD provided one company's proprietary data to another? What about instances where the company providing support for a given system decides that that system just isn't lucrative enough to continue to work on, as was the case recently when the manufacturer of the TF-34 combustion liners decided to leave the business?

Answer: In those cases where there are multiple providers, the military departments may determine that the market place assures the services are provided continuously and economically. Risk is taken care of by the market place; workload can be shifted to another entity should a provider have difficulties. An example is the depot maintenance of conventionally powered ships. Almost all of that work is provided in the private sector. In those cases where there is only one, or a limited number of suppliers, risk is addressed two ways. Contractual provisions obligate performance; and our Core methodology provides for the capability to perform that workload in public depots. Core exists to minimize risk of non-support from the private sector.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
TRANSCRIPT PAGE 106, LINE 2553
QUESTION NUMBER (HN-22-032)

Question: Just since January of this year employees at Boeing, Ingals Shipbuilding and General Motors have all gone on strike. Currently some 4,000 Lockheed-Martin employees are on the verge of striking, because of a dispute over who's going to perform janitorial services. What are we supposed to tell our Marines who are taking fire on the beach when they need depot repairs done now and the company contracted to support their mission essential systems is on strike or has gone belly-up and decided they don't want to do it any more?

Answer: As I said in my previous answer, the reason for our Core policy is to ensure we don't get stuck in the position you describe. The very essence of maintaining Core capabilities in organic depots is risk mitigation.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
TRANSCRIPT PAGE 107, LINE 2567
QUESTION NUMBER (HN-22-033)

Question: Finally, I've got to say I noticed in your report, called "Improving the Combat Edge Through Outsourcing," some interesting references to the desirability of contracting out, not only depot level work, but intermediate level aircraft repair, aircraft engine repair, missile work and combat vehicle work as well.
I'd be real interested if our uniformed guests in the second row might want to comment sometime of their perspective of this – how an admiral would feel if he deployed the carrier for a six-month cruise; is he going to have contract personnel on board to perform intermediate level maintenance on weapon systems?

Answer: The report does not refer to the desirability of contracting out intermedicat level maintenance. It simply lists, in an appendix, all those functions that make up our commercial activities data base. The Services generally do not intend to contract out intermediate maintenance.

Mr. BATEMAN. Mr. Secretary, I do want you to comment to whatever extent you wish. I would appreciate it if the gentlelady would make that available so that we could ask that you respond to it for the record, because there is a lot of meat in that coconut.

Mr. WHITE. I would appreciate it if I could do that, Mrs. Fowler.

Mrs. FOWLER. I would be glad to, because I would appreciate a response. Thank you.

I am deeply concerned by this new policy, as you can tell. Thank you.

Mr. BATEMAN. Next, Mr. Tejeda.

Mr. TEJEDA. Thank you, Mr. Chairman.

For the record, I would like to read one sentence from the 1995 BRAC report. This is what the 1995 BRAC recommended for Kelly Air Force Base, and this comes from the Commission's findings and recommendation, page 1–109, and it is for Kelly Air Force Base, TX.

It says, "The Commission recommends the following: Realign Kelly Air Force Base including the air logistics center; consolidate the workload to other DOD depots or to private sector commercial activities as determined by the Defense Depot Maintenance Council." So, this comes from BRAC, not solely as some individuals have stated, BRAC said something else, we are trying to force something else.

I certainly thank you for being here, Secretary White and General Viccellio, and I have a question.

It is my understanding that the uniformed military fully supports the Department's plan to outsource a greater portion of depot maintenance work. Is this correct? And why is the outsourcing of some greater degree of this work of importance to the warfighters of our Nation?

Mr. BATEMAN. Would you like General Viccellio to answer, Mr. Tejeda?

Mr. TEJEDA. Sure.

General VICCELLIO. Sir, I think I can state that the uniformed Armed Forces are in support of outsourcing appropriate additional depot activities. When I say, appropriate, I mean to do so after a risk and readiness analysis and in those instances when doing so represents the best value to the Air Force.

That may involve lowest cost, but it may not necessarily involve lowest cost. There is a misperception that what is being portrayed or put forth is to do all of depot maintenance. As I indicated in my earlier response, that is far from being the case. We are very careful about what we consider as the appropriate—as indicated on Secretary White's chart—the appropriate outsourcing candidates.

And as we go through this process, if we find there is a lack of capability, technical expertise, know-how or willingness to do it at a reasonable cost and an acceptable risk for us on the part of commercial industry we won't do it.

I have often been asked, what if you go through this process with a given part of workload, maybe something at Kelly or at McClellan or maybe something elsewhere, and you find that the best value appears to be to keep it organic? Are you going to recommend to the DDMC that it stay organic? The answer is, you bet I am.

Mr. TEJEDA. Thank you.

My next question is, if the Defense Department is not granted greater management flexibility in order to achieve cost savings through outsourcing what, in your view, is the potential impact on readiness, quality of life in the military, force modernization requirements, if you can answer that.

General VICCELLIO. A moment ago, the Deputy Secretary showed a graph with some lines on it about out-year possibilities. It shows the Air Force going to a portion somewhere between 45 or 50 percent organic and 50 percent-plus contract.

That represents our response to a call from Congress for a report on the part of the Government that shows sort of what we consider where we might go through the rest of this century given the anticipated reasonableness of this approach. In other words, the art of the possible, let's say, the art of the advisable.

So, as we look at what the BRAC Commission handed us in terms of having to make some decision about the workload at Kelly and McClellan, this represents our estimation at this point in time where we might go. As I said earlier, that represents a big chunk of the work at those two depots, probably relocating for one of the various reasons that I described earlier. But to take what we think represents a competitive market in an area where we still maintain the technical competence through work elsewhere in the Air Force or the Department to oversee a contractor involved in some work, that represents about where we think we could go, should we be allowed to. But to get there would require some statutory modification to those statutes, specifically 60–40, which sort of somewhat arbitrarily, in our view, modify or put quantifiable limitations on how much of that we could do.

Mr. BATEMAN. I thank the gentleman.

Next, in order of membership on the subcommittee, Mr. Longley.

Mr. LONGLEY. I pass, Mr. Chairman.

Mr. BATEMAN. In that event, next would be Mr. Chambliss.

Mr. CHAMBLISS. Thank you, Mr. Chairman.

You know, gentlemen, in light of what Mrs. Fowler just referred to a minute ago regarding the F–117, the chart that you put up there, Mr. Secretary, lists the various candidates for outsourcing. It is really appalling to me the fact that you are going to lump garbage disposals and housing, which is a quality of life issue, in with depot maintenance which is an issue where we have to have warfighting capability, where we are charged with the responsibility of sending airplanes into an area to kill the enemy and, at the same time, protect the lives of our young men and women, is really inconceivable to me. And I don't understand how you can put those categories together.

However, be that as it may, let me address the issue of prototype workload. First of all, my observations on this very critical issue to the future readiness of our force structure and, more importantly, an issue of how successfully we will be able to equip our troops in crisis situations. We must not lose sight of this primary goal, even if it is not at times the most cost-effective solution. I think you stated you agree with that.

Furthermore, I challenge the claim of many that this is an issue of parochial politics. Mr. Chairman, you will recall how we first approached this issue under your fine leadership last year. Before the

BRAC closure of two ALC's, there was agreement among members of this committee who seriously considered changes to our depot maintenance structure in light of the best interests of the warfighter.

Unfortunately, as you recall, Mr. Chairman, our optimism about the seriousness of this administration to discuss the depot issue with anything but the President's reelection in mind was dashed in July of 1995 when the administration announced its plans to privatize-in-place the workload at Sacramento and San Antonio ALC's.

A blatant slap in the face to every Member of this Congress who has been forced to accept a BRAC closure decision. The President's plan to privatize-in-place demonstrated an obvious end-run around the BRAC process in his quest to win California and Texas in November.

More disturbing to me, Mr. Chairman, is that many in the administration have chosen to ride the political coattails of the President's personal interest to implement a hastily conceived plan to privatize major elements of maintenance workload traditionally designed core.

Calling it arbitrary, the administration has disregarded title X of the U.S. Code, sections 2464, 2466, 2469, and 2470, the law of the land, and deliberately chose to proceed with his privatization strategies.

Mr. Chairman, our current depot law, 60–40, as it is commonly referred, is comprised of a layered set of requirements that ensures organic capability, a ready and controlled source of maintenance for equipment required under our 2–MRC scenario and a competitive environment that protects the interest of the American taxpayer.

All of this leads me to my ultimate concern; namely, this administration's attention to the law as written. Notwithstanding where we are going, what are you going to do to comply with the law?

General Viccellio, you have announced that the Air Force will go forward with the privatization of the prototype workload drawn from the two closing ALC's. These workloads, according to your press release, are to be privately competed. I am deeply concerned that your plans in this area are in direct violation of the law as written.

In light of title X's section 2469, and I quote, "Performance of a depot-level maintenance or repair workload is not changed to performance by a contractor unless the change is made by using: (1) merit-based selection procedures for a competition among all depot-level activities of the Department of Defense, or (2) competitive procedures for competitions among private and public sector entities."

This requirement applies to any workload that has a value of not less than $3 million and is being performed in a depot. It seems to me that your prototype workloads meet these criteria to a "T". First, each of the contracts exceed the $3 million threshold. Second, each of the prototypes represent workloads that have been previously performed in a public facility, now being considered for moving. And I don't read any exemptions or waivers provided for in section 2469. So, why then are these workloads not being prepared for bid by the remaining ALC's I have put these questions

to the Secretary of the Air Force and in testimony before this committee. Dr. White and General Viccellio, I asked the Secretary why the prototype workloads were not being made available for bids by the private depots? Her response was that she was not a lawyer and that I should ask you gentlemen.

So, I am asking. I will put to you the question, is it your testimony that the privatization of the prototype workloads outside the context of a private/public competition is within the authority of the Secretary of the Air Force? Furthermore, what do you intend to do to comply with the law as written? And, finally, you seem to be putting a premium on cost efficiency. Then why not let the depots compete for the best value to the taxpayer as provided for by the existing law in section 2469?

Dr. WHITE. Mr. Chambliss, if I may just make a couple of brief comments and then turn it over to General Viccellio. First of all, I obviously didn't describe that chart very well. I said there are a whole set of categories in which we do work in the public sector and in the private sector. That is true for depots. That is true for housing. That is true for base operating support. It doesn't lump them together in any particular way. It states a fact, that is, in fact, what we do.

We have identified separate teams of people who understand those various categories and asked them to look at what it is we ought to do in the future. So, it simply represents a series of various functions that, in terms of our responsibility, have to be examined.

Second, with respect to the depot report which I summarized briefly today, this was, of course, a report asked for by the Congress and we have taken that very seriously. We worked with the JCS and with the uniformed services, and have asked them to do that analysis. They have done that analysis and the results, that we have provided to the committee in written form and that I summarized, are before us today.

We would now like the opportunity to be able to have some flexibility to execute against those findings which are a result of a report from the Congress.

Third, let me assure you that we are not disregarding the law. And, we do not intend to disregard the law.

Mr. BATEMAN. General Viccellio, if you would let me interrupt for just a moment and then we want to hear your response.

General VICCELLIO. Yes, sir.

Mr. BATEMAN. I want to make sure we get this in the appropriate accurate context. We asked you to furnish us this report. You have furnished us that report. You spell out in general terms—and I must say, I think it is in very general terms—what you plan to do provided you were given the legal authority to do it. And, we are all in agreement that unless you get the legal authority, the plan, to the extent that it is not in compliance with the law, cannot and will not be implemented. That you are laying out a plan which you hope, and ask that we give you the legislative authority, to implement.

OK, I am supportive of you.

Dr. WHITE. I want to assure you, Mr. Chairman, we are following the law, we will continue to follow the law, I give you that pledge.

Mr. BATEMAN. But what you are doing, you are also recognizing that if you were, in fact, to implement the plan as you have presented it to us, it would violate the law, but you are not saying you are going to do that.

Dr. WHITE. We are not going to do that, unless we get relief from the law by the Congress.

Mr. BATEMAN. OK. General.

General VICCELLIO. Congressman, in response to the two parts of your observation and question that you brought up the best interests of the warfighter. I think it was pointed out earlier, I believe by Mr. Cunningham, that the warfighters are concerned about the challenges we face in taking the resources at hand. For us, in the services, that is our fiscal guidance, our planning guidance, our manpower guidance and all of that, and making it fit a level of forces that can meet our national military strategy, the 2–MRC strategy.

When asked by anyone who is interested whether I feel that our current budget can sustain those forces, keep them ready and keep them modern, my answer is if we do some things to generate more modernization kinds of funding. And I see a careful, calculated approach to apply in the market of the commercial industries where it makes sense to do so, as one—not the only—but one way of generating those necessary funds.

So, I think we are doing this on behalf of the warfighter. We are going to do it carefully and we are going to do it legally which leads me to the second half of your question.

As you know, we have approximately 30 percent of our depot business expressed in dollars we spend today already in commercial industry in a wide variety of activities for us. We did not put that money on contract except in compliance with the law. We don't intend to change that approach in the future.

With respect to section 2469 and the $3 million issue, we are going to promote a competition between public and private. There is not going to be any inhibition on depot's bidding in our service or other services. If a depot wants to bid they are free to bid.

In addition, in case there aren't any depot bids, I am going to direct the depot that obviously has the least non-recurring costs—in other words, the capitalization costs associated with picking up workload from somewhere else—to build an estimate of what it would take to do that mission at that depot.

Now, this will have a lot of advantages for us. First of all, it will tend to put heat on any commercial offerors that are interested in that workload. Second of all, it gives me a strong technical base to make the risk analysis and the analysis of the commercial offerors that we have. In other words, if I have gone through the process of really thinking this through, I will be able to do a much better technical evaluation than the commercial offeror.

And, finally, as I pointed out earlier, if I am given a good understanding of what it would cost us and the advantages to leave something organic, and that appears to us to be of best value, then that is what we will do.

There is this misconception that we are rushing down this path toward 100 percent privatization of everything in sight, and that is not the case.

I want to be careful about this, but I want to take advantage of it and I think there can be some savings. There is a wide variety of opinions out there about savings potential but I think there is some out there. That is based on my own experience and the reactions I have seen from industry, as I indicated earlier.

Mr. CHAMBLISS. Thank you, gentlemen. And, Mr. Chairman, I know I am out of time, but I do have a couple of additional questions that I will submit to you for the record.

Dr. WHITE. Sure.

Mr. BATEMAN. They will be submitted.

Mr. BATEMAN. Next is Congressman Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman.

You know, we are very concerned with the things we see happening and I have been very much concerned for the readiness of our military. I know that there has been new technology coming out but we haven't seen this new technology so that the depots can be competitive. It hasn't gone to the depots. So, this is why we see—and I have seen where GAO was here before you came in—that of 240 contracts 182 were sole-sourced out.

How is that going to be corrected? It seems to me that either there was not competition or the work is so skilled that very few people can compete. I would like to see the remaining bases be able to compete but they don't have the new equipment that is needed to be able to overhaul engines. We have tried, in my case, to get the description of the work that has to be done in my depot since 4 or 5 years ago and we still have not gotten it. How is that going to be corrected? And then, at the same time, maybe you can also comment on the Army Audit Agency investigation and report on contracts versus Department of the Army's civilian support costs for operation Desert Storm? I understand that the private companies, the figures were that it cost $84,000 to a high of over $197,000 more, or 117 percent more versus the civilian workers, the civil service workers. How are we going to deal with that? And this is in reference to Desert Storm.

[The following information was submitted for the record:]

Question. That of 240 contracts, 182 were sole-sourced out. How is that going to be corrected? It seems to be that there was no competition, or whether the work is so skilled that only very few people can compete, but they don't have the new equipment that is needed to be able to either overhaul engines.

Answer. As most of you know, acquisition reform is one of the top priorities for the Department. With approved contracting practices and the use of modern business practices we should remove many of the impediments that make doing business with the government less attractive. This should greatly increase the number of willing competitors for government business. Now, with respect to the GAO statistics, during fiscal year 1994, for all contracts categorized as "maintenance, repair and rebuilding of equipment" in terms of dollar value, 59.7 percent were completed. This was based on an analysis of $5.8 billion contract awards using the DD 350 data base. Additionally, we will be reviewing those sole source contracts, and where appropriate, we will obtain any needed technical data rights and complete those requirements.

Question. We have tried, in my case (CM Ortiz, to get the description of the work that has to be done in my depot (CCAD) for four or five years ago, and we still have not gotten it.

Answer. The Army intends to cooperate fully with this Committee. If the Congressman will provide the Army with the details on the information that he is seeking, we will ensure that he is provided a prompt response.

General VICCELLIO. I don't know of that report, Mr. Ortiz. I will look at it and be happy to provide you with an answer in terms of what the report says.

[The following information was submitted for the record:]

INSERT FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
READINESS SUBCOMMITTEE
DEPOT MAINTENANCE
16 APRIL 1996

PAGE # 122 LINE # 2923

U.S. ARMY AUDIT AGENCY CONSULTING REPORT ON CONTRACTOR VS. DA CIVILIAN SUPPORT COSTS FOR OPERATION DESERT STORM

On 7 July 1993, the U.S. Army Audit Agency issued a consulting report on Contractor vs. DA Civilian Support Costs for Operation Desert Storm. This review was done at the request of the Deputy Assistant Secretary of the Army (Logistics). Army Audit Agency officials briefed review results to the Deputy Assistant Secretary (Logistics) on 25 June 1993. The review was a very limited scope engagement. It was accomplished during a two-week time period during June 1993.

The review focused on services provided by both contractor and Army civilian employees who worked as engineers, technicians, and repairmen and who were responsible for maintaining equipment and weapon systems in the theater of operations. It included 30 of the 76 contracts that were awarded by four commodity commands within the Army Materiel Command. Contractor costs were compared to like-type costs for Army civilian employees.

The review showed that the average support costs for contractors was significantly more than that of Army civilian employees during Operation Desert Storm. The average annualized cost for a contractor employee ranged from $251,939 to $364,961. In contrast, the average annualized cost for an Army civilian employee was $167,900.

These cost differences were caused primarily by the Army's weak negotiating position during contract award and emphasis on providing timely maintenance support rather than cost control. Because of the urgency of need, Army activities generally awarded letter contracts or made undefinitized modifications to existing fixed price and cost-plus contracts. Such actions put the government in a weak negotiating position because contractors started work without an agreed-to scope of work or cost. Ultimately, the government had to negotiate

actual costs which, if determined to be reasonable and allowable under the contract, the government was obligated to pay. Use of sole source contracts and contractor overhead rates also contributed to the cost differences. Examples of contractor overhead costs included completion allowances, danger premiums, hardship premiums, hazard duty pay, and profit margins.

Another factor which may have contributed to the disparity in support costs between contractors and Army civilians was the lack of internal maintenance capability within the Army for some systems. In essence, the Army had to rely on contractor support--using internal capability wasn't an option.

Dr. WHITE. May I make a comment about sole source? Again, I haven't seen the report either, so, I don't know, I can't comment on the 182.

There are certain situations in which we go against the grain because we don't like sole source because of the very concerns you expressed. But sometimes we find ourselves in a situation where it makes it advisable to go sole source. For example, if a company has some sort of very unique technical qualifications—in other words, let's say they are the only one that has certain engineering knowledge, stealth might be an example, early on in stealth. Now, most of the companies understand stealth.

Sometimes the data rights issue kind of rears its head. If a competing offeror in the commercial market were to try to penetrate that market they would have to come to some arrangement with the original manufacturer for the data rights. And sometimes that makes them participating prohibitively expensive, particularly if we are talking about performance that goes beyond pure depot maintenance.

Sometimes the nature of the business is classified. Usually this is in the classified world. That is a once in a while kind of thing, but sometimes that drives a sole source decision.

And, sometimes, because of the small nature of the work it doesn't justify us to try and capitalize, particularly when there is expensive equipment involved in developing our own capability. In other words, to do a small amount of work to spend millions of dollars to get some kind of equipment to do it organically doesn't make sense and so we go sole source as a sound business decision.

And, finally, once in a while we will get in a situation where, because of an emergency, we come to a stoppage. For example, in a depot repair process or something and we need something in a hurry, that sometimes justifies going sole source when that producer who is producing it now can provide it in short-term, whereas, going through a competition would take more time. When it is a readiness impact.

Mr. ORTIZ. I have no idea how much money we are talking about. We look at 182 contracts, sole source——

Dr. WHITE. I don't either.

Mr. ORTIZ [continuing]. Of 240. But, in many cases, we see that depots do a lot of classified work. We do that, too.

Mr. WHITE. No, I understand that.

Mr. ORTIZ. And also, the thing is, if we are going to provide a level playing field I think that what we need to do as well is to equip the private sector so that they can be in competition with the public sector so that we can bring savings. Otherwise, this is going to continue where everything is going to be sole sourced.

And it is going to be as expensive as this analysis that was done by the Army audit, 115 percent more costly than the civilian workers.

So, this is one of the reasons why 60–40 came about. I am the author of that legislation and I talked to the Army people and it goes back years ago. The problem got so bad as to what you can see now that there is no competition, and I hope that that can be corrected. I think that if we do away with 60–40 it is going to be havoc, it is not going to work.

The reams of evidence show that there is no savings whatsoever, Mr. Secretary. And I know that you all mean well and I want to work with you. I want to be helpful, but I hope that we can see ways of correcting what we have seen and what the members of this committee have seen for years.

Dr. WHITE. We want to work with you, as you know, Mr. Ortiz. You and I have talked about this before. It is very important. We need some flexibility. We are not asking the Congress to ignore its oversight responsibilities.

We are more than prepared to come before this committee and other committees to explain our actions and justify what we have done. But we can't do that if we don't have the flexibility to be able to try some of these things, again, under your oversight.

So, as General Viccellio and I have tried to stress, we are talking about modest changes in the way we do business.

Mr. ORTIZ. Thank you.

Mr. BATEMAN. The Next is the gentleman from Utah, Mr. Hansen.

Mr. HANSEN. Thank you, Mr. Chairman, and thanks for allowing us as nonmembers of this subcommittee to sit in with you today.

I think the testimony of General Viccellio and Secretary White was very interesting. It wasn't about 2 months ago that we had Secretary Perry over here and we had the opportunity to talk with him.

I took him through the litany of the base closing bill that Dick Armey basically wrote, and a lot of us had a hand in it. I think we are right down to the thing. You took an oath of office and so did we to uphold the law of the land. I think you have made some very interesting approaches as to how to do it.

But in the law of the land it says that the President of the United States has 15 days and he gets two options—send it back to BRAC or accept it. There is no privatization in there.

Then it goes to Congress and we have 45 legislative days, and there is no privatization in there. But the language, if you will read it, is the same.

So, if the President can privatize in 15 days, why can't Members of Congress?

Now, Mr. Secretary, excuse me, Secretary Perry made the statement, and said, "I have legal footing for this; I have a legal opinion that will say where I have the right to do that." And he was going to send it right over. Now, it has been 2 months, and my people have called repeatedly. I would be willing to stand outside the Secretary's door to get my hand on that.

Did you bring it with you?

Dr. WHITE. I'm sorry, I didn't realize you had made such a request, Mr. Hansen.

Mr. HANSEN. Well, he not only ignored me, he also ignored a man by the name of Floyd Spence, the chairman of this committee, who also signed a letter with me asking him to bring it over.

And I would surely think that the Secretary—you know, we are nothing, but still on the other hand, we are Members of Congress—and I think it would be very nice if he would send that over to us, so that we could see the legal opinion of why you do it.

Apparently, you don't have it.

Laying that aside, let's go on to some of the very interesting things that you said here. You talked about core work and when you put that up you said that core work would stay. You wanted to keep core work, that's a correct statement?

Dr. WHITE. Yes, sir.

Mr. HANSEN. All right, we have got core work at these two areas we know as San Antonio and McClellan, and where does that core work go?

Dr. WHITE. Where does that core work go?

Mr. HANSEN. I mean, if we are going to keep it in the military, which I accept as the premise that you gave here.

Dr. WHITE. It will remain in an organic depot.

It will be transferred to another organic depot.

Mr. HANSEN. But the core work you are going to keep there, so that core work is on its way out, is that right?

Dr. WHITE. That is correct.

Mr. HANSEN. How long before that goes?

Dr. WHITE. It will go approximately between the year 2000–2001.

Mr. HANSEN. I was also happy to hear you say that you believe in competition, and I agree wholeheartedly with that.

Basically, most of us on both sides of the political aisle believe in competition and believe in privatization. We also believe very strongly in core work. Having sat on this committee for 15 years or so, I still try to figure out the interpretation of it, if I may say that respectfully. It is like having the Forest Service tell us what an ecosystem is: it depends on what forest ranger you are talking to.

And I would assume that some day—and I am not trying to be a smart-aleck, please don't take it that way—but I would really like to have a definition of core work.

Because I think it is like beauty: It is to the eye of the beholder; what one person says is core work another one doesn't, and we always get in that argument and I have heard that argued all over the place.

If I may, while I have a couple of minutes, I have letters here from four members of the BRAC Commission: Montoya, Reubels, Steele, and Kling, and all of them are saying that they disagree with the premise you folks have come up with on privatization of those, too.

Mr. Chairman, I would suggest to you and also to the chairman of the full committee, Mr. Spence, that we have those people in because I would like to have the opportunity to question those BRAC Commissioners regarding what they felt was necessary.

Secretary White, have you seen the copies of their letters?

Dr. WHITE. No, sir.

Mr. HANSEN. I would be happy to submit those to you. I think you would find them very interesting.

Back to the competition angle. Let's say we go into competition, can the private sector and what is remaining in these three bases that are now operating at around 50 percent, according to GAO that was here, could they compete with the private sector?

Dr. WHITE. I am sorry. Which three bases, Mr. Hansen?

Mr. HANSEN. Well, whatever is remaining. Can a military base then compete with the private sector over any work that comes up? Is that part of your proposal?

Dr. WHITE. It depends. First of all, as General Viccellio said, in some of these instances, he is going to, in fact, see whether or not they are going to provide the opportunity for——

Mr. HANSEN. Laying aside the secret element and all that, I sit on the Intelligence Committee and——

Dr. WHITE. No. I mean, he was talking about the work we——

Mr. HANSEN. I am talking about anything that comes up for competition that goes to the private sector that is not a single-source sorties brought up, could they compete?

General VICCELLIO. Yes, sir. Our plan on the RFP's for all the workload that we consider as a privatization candidate, where we think there is a reasonable commercial base to drive some competition, the potential for savings, without unacceptable risk, we will open that to all bidders, essentially.

Mr. HANSEN. Including——

General VICCELLIO. Yes, public, private.

Mr. HANSEN. Tinker, Warner Robins, Hill, whoever?

General VICCELLIO. If they want to bid, they can bid. We are not going to preclude anybody from bidding.

Mr. HANSEN. You have made me feel pretty good today. I appreciate that. That does a lot for me because I was of the opinion that that wasn't going to happen. I am glad to see you say that on the record, and I compliment you for it.

I have only 15 more questions, Mr. Chairman, and the red light went on. I am just getting started, but thank you very much.

Mr. BATEMAN. You may submit the questions for the record.

With reference to the committee hearing from the members of the BRAC, I would be very interested in communication from them, but I don't think we are going to be able to do it in the timeframe that we are going to need to have the information by formal hearing. But I would be happy to have the information.

Mr. Watts.

Mr. WATTS. Thank you, Mr. Chairman. Mr. Hansen submitted some letters from the BRAC Commissioners for the record, and there are a couple of things I want to highlight in one of the letters. I wrote each one of the BRAC Commissioners and asked them to respond to what was going on in this privatization-in-place effort. And I talked to three or four of them and got letters from a couple of them, but one of them said, "Where the Commission encouraged privatization-in-place, our report addresses it directly. See pages 1 through 58 to 1 through 61. Such was not the case with ALC's." And they go on to say, "I am at a loss to understand why it would be in the Air Force's best interest to protect its lowest ranking depots at the expense of its three superior installations."

Then one other point I want to note is: "If any Commissioner had offered a motion to privatize-in-place, as the President proposes, I am 100 percent certain that such a motion would have been defeated handily."

Let me go to the GAO report I was asking Mr. Warren about, and I want to follow up on that. DOD states that it expects to see a savings of 31 percent as a result of privatization, and these sav-

ings projections are based on estimates of savings from DOD's implementation of the A–76 studies.

If you get your savings from the old A–76 studies, I have to tell you I have a very difficult time with that, because I would encourage you to go back and look at the results from several different sources. The depot maintenance competition, for example, San Antonio competed the C–5 PDM between themselves and private industry, and it wasn't even close. San Antonio won that workload. The Navy competed the FA–18 between themselves, Ogden, and industry. Ogden won, and eventually North Island reduced their costs and, in fact, brought it back into North Island organically.

The point is it was not done on contract. Both the Navy source and the Air Force source were less expensive.

The B–2 depot support review said there was over $400 million in savings to be had by doing that workload organically at Tinker AFB.

In your introduction, Dr. White, you said that you have been working to make the Department efficient—or to make the Department more efficient—and I am curious, how is it becoming more efficient if you are going to take the two lowest ALC's and jeopardize the three superior ALC's by privatizing-in-place? Those three superior ALC's right now are at about 48- to 50-percent capacity. The BRAC Commission, or the purpose of the BRAC report, was to reduce the excess capacity. So, how are we becoming more efficient if we privatize-in-place in those two less superior facilities? How are we becoming less efficient, when it seems to me that all three of them are going to be well below 40-percent capacity, which I would think presents real problems for our military resources.

Dr. WHITE. Well, Mr. Watts, let me make a couple of comments. First of all, the items that you read off where the public depots have substantially lower costs and so on, you don't have a quarrel with me. I want to do what is most cost-effective. What we want is the flexibility to look at that. We just don't want to have to have an arbitrary rule in terms of what it is we do.

With respect to the depots at Sacramento and San Antonio, as General Viccellio indicated, some of that work is going to go to the other three depots. We expect the amount of work in those depots to increase. Some of that is core work. It ought to go to those depots, and we will do that.

General VICCELLIO. Let me add a comment here. First of all, if during this process of considering some of the work at Sacramento and Kelly we determine that Oklahoma City or some other depot represents a better value for the Air Force, we will keep that work organic and move it to that depot, as I stated earlier.

Second, there is going to be a substantial amount of what is going on at those two depots today—and I don't know if it is 5,000 workers worth, 7,000 workers worth, but as I have shared with you before, that is about the range I would expect, given what I think we will have in terms of success in interesting the private world in a competitive way—will go to the remaining three depots.

In addition to that, we are getting all kinds of interest from industry about coming aboard our depots, if I can use a Navy term, and sharing and taking advantage of investments we have made over years past. At Oklahoma City, for example, we have to unnec-

essarily, but at great cost send, a portion of our large aircraft overhaul out for paint and depaint. General Eichman would like to offer to industry—and we have at least one very serious offer—the opportunity to come in and build a large-aircraft, contractor-owned paint barn; do our work that we have to now send out because we don't have the capacity, and bring in commercial work. Boeing has indicated that they are also interested in going beyond that and perhaps doing some of their military big aircraft depot work co-located with ours.

You should also know at Oklahoma City we have probably the world's finest blade and vane repair facility, with all kinds of high-tech approaches to handle the problems we are seeing in our high-performance jet engines. That was designed for a cold war Air Force. It has got millions of hours of capacity or blades worth of capacity on an annual basis, and we are using less than a million today. General Eichman is going out to the four companies across the country that do that kind of work for the airlines and other engine operators to see if they would be interested in coming in, which is allowed by a provision of law, to share this facility, share in the cost of its overhead, share in the cost of its upkeep and maintenance.

I think we will see that in all kinds of applications at all three of our remaining depots, and I am seeing indications of interest today at Oklahoma City, at Warner Robins, and at Ogden.

Mr. WATTS. I have several other questions, but I will submit them for the record, and you can answer those. But that paint facility, I think that paint facility is outside—or are you saying that the paint facility is a part of the core workload at Tinker?

General VICCELLIO. No. You mean the current paint facility?

Mr. WATTS. General Eichman was researching this paint facility, Boeing coming in and building that, a privately run paint facility. But would you define that as a part of the core responsibility?

General VICCELLIO. No, because what we are talking about in terms of our work that they might do for us, save us the problem of sending these airplanes to Wichita or to Tulsa or wherever we have to send them today to get done. We can do them straight there, save a lot of money, and save time for General Rutherford and the other users.

Mr. WATTS. Well, I will submit the rest of my questions.

Mr. BATEMAN. Thank you, Mr. Watts.

Mr. Fazio.

Mr. FAZIO. Mr. Chairman, I want to thank you once again for letting me take the opportunity to sit with you and actually ask questions. You are very generous, and I hope Mr. Tejeda feels a little more comfortable that he had somebody on the committee to ride shotgun with him here.

But I want to thank both of you gentlemen for your presentation and the leadership you have shown in bringing the committee this proposal today. I am going to just ask you to comment further on a couple of points. One, dual use, which I think we have not had a lot of experience with, mostly it has been at McClellan. I think the GAO indicated earlier that they really couldn't comment on it because they didn't know enough about it. And I am hoping, General Viccellio, that you can perhaps talk a bit more about what we

have done and what we might do in the future with it. But generally, simply for the benefit of the committee, indicate how you see cost avoidance being the center of privatization-in-place, and something we haven't talked a lot about, if you would comment on how you believe we could actually avoid degradation and mission readiness as a result of not having to go through the trauma of personnel transfers and changes of mission assignments over a period of time. I would be more than happy to take those comments from both of you gentlemen.

Dr. WHITE. Well, General Viccellio can give you much more specific answers with respect to these particular depots. But let me also say, Mr. Fazio, we think the dual use is a very, very important tool, and we think we are not doing it well enough; we are not doing enough of it. We need to do more.

As time goes on, we need to increasingly look to the private sector for more of our technological solutions. We are a smaller and smaller part of the total economy. As that goes on, many of the technological changes which we will need will not be made for us. They will be made for other purposes—in fact, the people who have no interest in what we do, and don't even understand what we do. So we need to reach out to industry and work with them to make sure that we have dual use.

I also think with respect to mission readiness, in terms of these bases, when we looked at the analysis of what it is we had to do and our responsibilities, it was our determination, military and civilian leadership in the Department, that our readiness was enhanced by the privatization-in-place program for these two bases. We have done this particular program at a very limited number of facilities, and we can go through them if we have time, because there are only a few others. And we don't anticipate over time that we are going to have large numbers. But when the situation is right, where we have the skilled work force and the unique facility and a real need, we don't want to disrupt that. We don't want to degrade our readiness and spend more money than we ought to when, in fact, we have a capability right where we are operating and where we made investments in our people and in our equipment.

General VICCELLIO. Congressman, thanks for the opportunity to talk a little bit about privatization from, let's call it, a perspective other than cost, because I think it offers us advantages that are important to us, particularly as we face the challenge of closing these two large depots.

When we were initially asked, "What do you guys think about this concept?" It is obviously right there in the BRAC recommendations. "What could it mean to you?" As you know—and we have discussed this many times—when we go out to consider private performance of this work load, we cannot direct that it be privatized-in-place. That is a misconception, quite frankly, that unfortunately is widely held.

I think we will see, in the case of these workloads as we consider this option for them at McClellan and Kelly, the drawing power of all the past investments we have made in Air Force expenses, taxpayer dollars, in the experience of the work force and the quality, often world-class, of the facilities and equipment that are there.

To make those available to a potential offeror seems to be very attractive. It was very attractive at Newark, although that was a bit of an unusual case because of the tremendous cost of considering doing it anywhere else, but we will see those same advantages at Kelly and McClellan. We had, as you know, over 200 interested companies come to us on our industry days and tell us about that level of interest.

So, I would like to do this in a way that capitalizes on that past investment. But beyond that, I have experienced personally five base closures, including two large training centers at Chanute, IL, and in Denver, CO. And despite our very best efforts to make this transition seamless and transparent to our customers in the field, we saw readiness impacts because of breaks in production. This time it was trained airmen; in the future it might be at a depot, repaired parts. You can't avoid it.

So, to have an option that allows us to transition to a more cost-effective approach—and as I said earlier, clearly that is going to be the driving factor here—in a way that precludes a break in production and whatever readiness impacts that gives us is of great advantage to me.

Mr. BATEMAN. Thank you, Mr. Fazio.

The Chair is going to indicate that one of the questions I am going to submit for the record—in view of the testimony that the savings from privatization and outsourcing would be dedicated to modernization, and the thrust of the question is going to be—if the savings prove not to be real, is the projected budget profile going to be adjusted? Because the modernization is critical.

Dr. WHITE. Mr. Chairman, that is a very important question. I am glad you asked it. We have not put these savings into our estimates; that is to say, the modernization program we have presented to the Congress does not assume these savings. These savings are in addition to that budget. So we would add to our modernization program if we can realize these savings.

Mr. BATEMAN. For the final round of questions of the day, I would ask Mr. Sisisky if he has anything further.

Mr. SISISKY. This is a pretty simple question. You used the example of the paint shop. I forgot where it was. Does the private company buy that?

General VICCELLIO. Are they interested? Is that what you are saying?

Mr. SISISKY. If you have got a paint facility, or any facility, do they buy it, or lease it?

General VICCELLIO. In this particular case, to avoid going into the Defense budget, taking out more MilCon dollars, which would come from somewhere, if we can get an offeror to build this thing at their expense because of the possibility of them doing their work there, then, yes, they would pay for it. And there is that option.

Another example would be Warner Robins. McDonnell Douglas has indicated an interest to talk to us about bringing F–15 support software work, which they do for us at other locations, into the depot and operating that side-by-side with our software, because we have got a great facility there.

Now, if they wanted to later bring software work that they did for other customers in there, they could do so. The extent to which

we can convince them that it is in their best interest helps us with this shared overhead problem we are trying to solve.

Mr. SISISKY. In my opening statement, I mentioned that as the good compromise.

General VICCELLIO. Yes, sir.

Mr. SISISKY. No question about it.

General VICCELLIO. Yes, sir.

Mr. SISISKY. But I worry about one other thing. What kind of guarantees do you give that person who makes the investment that you are going to keep giving them business? Because I know how this system works, and they will find a way, whether through an amendment in this committee or some other place—and that is what really worries me, that we are going to be guaranteeing, after they make the investment, that they get the business.

General VICCELLIO. Well, having talked to General Eichman, our commander at Oklahoma City, his concept would be to make this offer with a range of the number of airplanes we would provide them to paint—our work, in other words—which is basically the airplanes that we are forced to send off the depot today at great expense.

Mr. SISISKY. I will yield to the gentleman from Texas.

Mr. ORTIZ. One of my questions is that I know that these big companies also have access facilities. What makes you so sure that they will stay in that locale? What happens if they win the contract and they decide to move someplace else?

General VICCELLIO. A lot of these companies—and this is the interesting point when you are talking about capacity—are talking to us about coming to our depots so they can get rid of their facilities elsewhere. Sir, our facilities are some of the best in the world. Any company should give serious consideration if this opportunity came its way, and we are seeing the response to that.

When we started talking to industry about outsourcing in general, we didn't expect this kind of response. But we are getting it, and it offers us some opportunity to achieve that increased efficiency at these three remaining locations.

Mr. CHAMBLISS. Would the gentleman yield for one quick question?

Mr. BATEMAN. If it is a quick question.

Mr. CHAMBLISS. It is very quick, Mr. Chairman.

You mentioned the paint facility at Tinker, General. You mentioned the situation with McDonnell at Robins. Why do you need relief from 60–40 to do that? You can do that now.

General VICCELLIO. That is correct. We do not need relief from 60–40 to do that. I am trying to point, Mr. Congressman, to the situation where GAO and others have said if you don't move all of this stuff from McClellan and Kelly to these remaining depots, you are never going to achieve efficiencies. I am saying there is one more way to skin this cat.

Mr. CHAMBLISS. You can take everything on this list again, outsourcing candidates, outside of depot maintenance, you can do every one of those right now. You can pursue outsourcing without any relief from 60–40; right?

General VICCELLIO. Yes, sir, and we are pursuing that. When the Defense Science Board talks about 15 billion dollars' worth of potential savings, they are including those other areas as well.

Mr. BATEMAN. With that, we thank you, Mr. Secretary; we thank you, General. The information and insights that you have shared with us have been very helpful to the committee. We appreciate your patience, and we look forward to having your responses to the questions that were submitted.

Dr. WHITE. Thank you, Mr. Chairman. It was our pleasure. Thank you very much.

Mr. BATEMAN. Thank you.

[Whereupon, at 5:47 p.m., the subcommittee was adjourned.]

GENERAL ACCOUNTING OFFICE
WITNESS

RESPONSES
TO
MEMBER'S QUESTIONS

FOR THE
APRIL 16 HEARING RECORD
ON
DEPOT MAINTENANCE

U.S. GENERAL ACCOUNTING OFFICE
RESPONSES TO MEMBER'S QUESTIONS

Mr. Warren:

Your statement says that historically the DOD depots have produced quality work which has satisfied the needs of their customers. It also says that where comparative data was available, and you made cost comparisons, DOD depots have been less costly than the private sector.

- - If the quality is good and the price is cheaper, why should we support the privatization of DOD's depot maintenance?

The Congress has in the past supported a public depot maintenance system and DOD's stated policy is to provide a core depot maintenance capability in that organic system. In view of these factors and the large investment already made in the DOD depot maintenance system, decisions regarding source of repair for military systems should be made based on an analysis of industrial base and cost considerations. For fielded systems where capability has already been established in a DOD facility, it is questionable whether total privatization would provide the most economical depot maintenance support. Results of public-private competitions indicate that although the public sector more often provides the most economical support for fielded systems, in some cases, the private sector offered the most economical source of repair. Further, for new systems that have commercial applications and where adequate competition exists in the private sector, the private sector may be DOD's most economical repair source. Finally, source of repair decisions should always consider the total industrial base and the impact life-cycle repair capability may have on the total industrial base and its cost. DOD has for many years had a decision analysis process which, if properly implemented, would require a careful analysis of these factors, including readiness, sustainability and cost.

Mr. Warren:

According to your statement, GAO's analysis of private sector depot maintenance contracts showed that 182 of 240 contracts reviewed were awarded sole source.

- - What was the justification for sole source awards?

Our analysis of DOD data determined that lack of technical data was the principal justification for sole source awards. Other reasons include: (1) limited sources of repair, (2) geographical readiness considerations, and (3) insufficient time to conduct a competition. We did not attempt to validate the reasonableness of each set of circumstances surrounding these contract awards with respect to not using competition. However, we noted that some buying activities used sole source contracting far more than others. For example, we found that one buying activity, the Navy Ships Parts Control Center, obligates about $180 million per year for depot maintenance contracts for repair of ship components using sole-source contracts 100 percent of the time- -with many cost-type contracts used. Officials at this activity noted that they did not have the technical

data, technical manpower, or contracting skills to use competitive contracting. Additionally, officials noted that the process for qualifying repair sources is difficult and time-consuming.

- - Does GAO's prior depot maintenance work show any major pitfalls from extensive use of sole-source contracts?

In the past GAO has stated that competition decreases the costs for various defense goods, including the acquisition of new systems and follow-on spares. Sole source contracting often leads to cost growth, with the government having little leverage to reduce costs, since the sole source provider is the government's only option. We have not done extensive work reviewing cost reasonableness or cost growth for depot maintenance contracts. Nonetheless, we have noted that the threat of having public depots take over maintenance of specific contract workloads resulted in the sole-source private contractor significantly reducing its costs significantly.

Mr. Warren:

Your statement states that 76 percent of your sample of existing private sector contracts were awarded non-competitively and that 58 percent of the 95 non-ship public-private competitions had zero or one private sector bid. This appears to be a rather substantial indication that the private sector market for depot maintenance does not have "adequate" levels of competition.

- - Under these conditions, do you believe the public depots should be allowed to compete for workloads before they are privatized?

If the Congress continues to support a national policy of having a DOD depot system, GAO continues to support the use of competitive procedures that include military depots before privatization to assure that a private contractor is the most cost-effective alternative for repairing a specific workload. Our January 1996 report on the Navy aviation public-private competition program recommended that the Secretary of Defense (1) reinstitute public-private competition for depot maintenance as quickly as possible; (2) develop and issue guidelines regarding the conditions, framework, policies, procedures, and milestones for reinstituting competitions; and (3) require the Defense Contract Audit Agency to review internal controls and accounting policies and procedures of DOD depots to ensure they are adequate for identifying, allocating, and tracking costs of depot maintenance programs and to ensure that proper costs are identified and considered as part of the bids by DOD depots.

Mr. Warren:

The Department contends that the depots' accounting systems are so bad they cannot adequately account for their costs, therefore competitions between the public and private

sector are unfair. This was one of the reasons the DOD suspended all depot competitions nearly two years ago.

-- Does your analysis show that there are costs which the depots should have accounted for that were not in their bids.

When the public-private competition first began, depot officials had no experience developing bid proposals had no reason to attempt to isolate costs for specific depot maintenance workloads. Further, the public-private competition program was initiated without having firm procedural guidelines. Our analysis of DOD's public-private competition program showed that the refinement of the cost comparability handbook, use of the Defense Contract Audit Agency to review depot accounting systems and bids, and the growth in the experience of the depots' bid proposal offices generally improved the quality and accuracy of the depot bids. Specifically, we found the most recent revisions to the Cost Comparability Handbook appropriately identified the cost categories that should be included in depot bids. However, we found that internal control problems and other deficiencies continued to be problematic with respect to assuring that incurred costs were properly allocated to the appropriate categories. We believe these deficiencies can be resolved with management attention and adequate audit.

-- Does your analysis show that private sector bids were so close that cost increases on the part of the DOD depots would indicate that the lowest private sector bids could have done the work cheaper?

Limited information was available regarding the actual costs of performing the competition program work. However, our limited analysis indicated that in general the private sector bids were not sufficiently close to the public bids that increases due to cost growth would have changed the results of the competition decision. For example, for Air Force competitions, on average, offers bids by original equipment manufacturers were more than twice the level of a winning offer in Air Force competitions. While there was cost-growth in the Air Force competition work, this was not nearly enough to make the incurred costs above the lowest private sector bid. Further, there may also have been some cost growth by private contractors if the contracts had been awarded to private contractors.

Mr. Warren:

Your report on the Navy's competition program recommended that the Defense Contract Audit Agency be used to review DOD depot accounting systems and bids.

-- Do you continue to believe that this action could be used to assure that DOD bids are fair?

DCAA has responsibility for reviewing accounting systems and bids for private sector contractors and it appears reasonable that this organization is the most logical for

performing the same mission for public depots. When DOD had an active public-private program, DCAA had responsibility for reviewing public depot bids to determine if all appropriate costs were included. During our review of DOD's competition program, we found that over time these DCAA accounting system and bid reviews improved the quality of the depot bids. We believe DCAA is the appropriate activity to assure that DOD bids are fair. However, to fully accomplish this responsibility, DCAA would also have to conduct incurred cost audits to assure that the depots are able to implement competition workloads for the bid price.

Mr. Warren:

Your report on privatizing commercial derivative engines suggests that even though there are private sector vendors who can compete for this work, it still may not be cost-effective to outsource this work.

- - Please explain this further.

First, regardless of the existence of commercial repair capability, a DOD depot may offer the lowest overall cost of repair. Depots were designed for repair not manufacture and they often benefit from several conditions not found in a given private contractor facility. For example: (1) the depots often can do a complete system overhaul without having to outsource individual modules or subsystems and the synergy of having full repair capability in one place may reduce the repair time and the cost of many overhauls; (2) the depot generally benefits from the economies of a large operating scale which may provide lower unit costs than a contractor operating a smaller, more limited facility; and (3) efficiency may be greater in a depot because of the large quantities of systems which generally flow through depot repair lines.

Additionally, increasing the utilization of the existing depot facilities and equipment could significantly decrease the overall costs of depot repair. We have reported that DOD currently has about 45 percent excess capacity in the DOD depot system, which impacts the cost-effectiveness of contracting out maintenance work. When a military depot has excess capacity, moving some of its workload into the private sector can substantially increase each unit's share of overhead expense at the DOD depot losing the workload, resulting in increasing the unit cost for all work done by that facility. For example, we estimated that consolidating engine workload from one closing Air Force depot with similar workload in the remaining Air Force engine depot instead of privatizing this workload in place could reduce the overhead rate for engine workload at the remaining depot by as much as $10 per hour for a total savings of about $70 million.

- - Would it be fair to suggest that the costs which should be considered by the DOD depots is the marginal or incremental costs which would be incurred by doing the additional workload?

Marginal or incremental are the additional costs that are incurred for material, labor, etc. for an additional unit of work. It excludes the fixed costs that are incurred regardless of whether or not the unit of work in question is performed. If a decision is made to have a given public depot, DOD will incur the fixed costs of maintaining that depot regardless of whether or not any work is done. An argument could be made that when comparing the costs of a public depot for a given workload with the costs of performing the work in the private sector, the incremental costs of performing the work in the public sector should be used since DOD will incur the fixed costs of maintaining that depot regardless of whether the incremental workload in question is done in the public or private sector. The rules of public-private competition required that public sector bids include full costs rather than incremental costs. Thus, a representative share of fixed overhead had to be allocated to each public sector bid.

- - Is there a precedent for using marginal or incremental costing for making cost comparisons between the public and private sectors?

Legislation providing the basis for workload allocation decisions relative to DOD factories and arsenals allow for incremental or marginal costing for DOD work. 10 U.S.C. 4532 provides that the Secretary of the Army shall have supplies needed for the Department of the Army made in factories or arsenals owned by the United States, so far as those factories or arsenals can make those supplies on an economical basis. A similar, though discretionary provision allows the Secretary of the Air Force to have supplies needed for the Department of the Air Force made in factories, arsenals, or depots owned by the United States, so far as those factories, arsenals, or depots can make those supplies economically. The Arsenal Act does not apply to the Department of the Navy.

Cost comparisons required by the Arsenal Act for determining whether supplies can be economically obtained from government-owned facilities may be made by comparing cost proposals by government plants that exclude costs that would be incurred by the government plants whether or not a particular workload is awarded to that plant. In other words, the Arsenal Act provides that only the marginal costs required to do the additional work in the government facility be considered for comparison purposes.

Mr. Warren:

Your statement says that privatizing in place is likely to be more costly than consolidating workloads in the remaining DOD depots. The BRAC language also suggests that the intent was to consolidate the workload at the remaining depots.

- - Was the basis of the BRAC's computation of savings based on the consolidation of workload at the remaining depots?

In developing cost and savings estimates for each of the DOD depots recommended for closure, the BRAC Commission assumed the workload from the closing depot would be consolidated with that of similar workload in one of the remaining DOD depots.

Projected savings were developed based on the assumption that workload from closing depots would be transferred to other DOD depots and consolidated with similar workloads.

- - Please explain how you derived the $182 million annual recurring savings that can be achieved by consolidating the San Antonio and McClellan workloads at the remaining depots.

We revised the maintenance and overhaul rates at the depots which were intended to receive workload from the closing depots. The revised rates were developed by reflecting the impact of an the increased workload level at those locations, based on the assumption that workload from the San Antonio and Sacramento depots would be consolidated at remaining Air Force depots rather than privatized in place. We then used the revised rates for the three remaining Air Force depots to calculate the costs required to perform the total projected depot maintenance workload which the Air Force plans to perform in its depots in fiscal year 1999. We also identified the costs to relocate the required equipment, parts, and personnel from closing depots. With estimated transition costs of $472 million, we determined that the Air Force could recover the costs of transferring workload from the closing depots in less than three years. Much of the personnel costs which are included in this estimate would also be incurred if the maintenance workloads are privatized in place. In dong this analysis, we assumed that all workloads would transition to another DOD depot. However, we noted that transition costs for one workload, the C-5 aircraft to another Air Force depot would be so high that privatization-either in-place or otherwise, may be the most cost-effective alternative. Further, it may also not be cost-effective to transition maintenance capability for several systems such as the A-10 and F-111 which are being phased out of the Air Force inventory.

Mr. Warren:

Your statement states that privatization-in-place at Newark, McClellan, and Kelly will not likely save the government money.

- - Have you also looked at privatization-in-place at Red River, Letterkenny, and other locations?

We are reviewing Army privatization-in-place initiatives at Red River and Letterkenny and Navy initiatives at the Louisville Detachment of the Naval Surface Warfare Center and the Naval Air Warfare Center Aircraft Detachment, Indianapolis. We expect to issue reports on each of the services privatization-in-place initiatives in July 1996.

- - What are the implications of privatization-in-place to ever closing any more bases that have large activities such as depots, laboratories, or engineering centers?

The objective of the base closure process was to consolidate work from underutilized facilities to reduce excess capacity and increase utilization of remaining DOD facilities.

The first two rounds of base closure resulted in no privatization-in-place initiatives and the third round, one. The fourth round resulted in privatization-in-place initiatives being considered for six industrial facilities. In each case where privatization-in-place occurs, the Department is foregoing the opportunity to achieve savings opportunities through workload consolidation, reduction of excess capacity, and increase in the utilization of remaining facilities. This means DOD foregoing opportunities to decrease its overhead rates in remaining depots. There are future implications of these privatizations beyond the missed opportunity costs. In each privatization-in-place initiative, local community interests became the paramount concern over reduction of excess capacity and cost savings. It is likely that community groups in many locations facing a potential future closure will put together a "privatization-in-place" proposal. If the six privatization-in-place initiatives now under consideration are implemented, it may be very difficult to get "real" closures in the future.

Mr. Warren:

DOD now states that it expects to see savings of 31 percent as a result of privatization. These savings projections are based on estimates of savings from DOD's implementation of OMB-Circular A-76.

- - Has GAO looked at whether or not these savings were actually achieved?

The projected savings estimates were developed based on estimates of what the costs of operations would be. GAO and service audit groups have reviewed some of the results of OMB Circular A-76 competition programs to determine if savings were actually achieved.

- - Was there cost growth in those won by the private sector?

GAO and DOD audit agency reports have found that savings or cost reductions resulting from the A-76 program were difficult to determine for several reasons, including various shortcomings or inaccuracies in data or program analysis tools. For example:

(1) Cost growth could not be measured and DOD did not know the extent to which actual costs incurred after a competed program was implemented differed from the estimated costs.
(2) DOD's A-76 data base contained inaccuracies and incomplete savings data.
(3) Savings figures were based on projections rather than actual experience. Baseline cost estimates were often incomplete or inaccurate. Savings projections were estimated centrally using a formula that assumed non-personnel costs vary directly with the number of people working in an activity. Errors were identified in the computer program that estimated savings. Costs of conducting the competitions and administering private sector contracts were not included as a cost.

It is likely that savings did result from many of the OMB-Circular A-76 cost studies. However, it is unclear to what extent savings have actually been achieved.

-- Are these results relative to what might be expected from attempts to privatize depot maintenance work?

Our reviews of DOD's public-private competition program for depot maintenance indicated similar findings. Accurate cost baselines were not available and there was cost growth in programs won by both the public and private sector. Nonetheless, the program did result in cost savings. However, it is questionable the extent to which privatization undertaken without significant competition in the private sector and/or competition between the public and private sector will result in the most cost-effective depot maintenance program. Further, each privatization will increase the cost of remaining DOD workloads since the DOD depot maintenance system has significant excess capacity.

Mr. Warren:

Your statement says that DOD's policy report is inconsistent with congressional direction in one key area- -the use of public-private competition.

-- What will likely happen to DOD depots if the Department continues to ignore congressional direction in this area?

If effectively implemented, public-private competition helps to assure that the source of repair for depot maintenance workloads is the most cost-effective and will result in DOD. If DOD continues to privatize depot maintenance workloads using sole-source procedures and cost-type contracts, it is likely there will be significant cost increases in the depot maintenance program.

Mr. Warren:

In your review of DOD's workload report, did you identify any problem areas or inconsistencies?

Mr. Warren:

The historical public-private depot workload data for fiscal years 1991 to 1995 presented in the workload distribution report includes in the public sector workload share, the value of repair parts and services they purchase form the private sector. Some of these parts are furnished to the private sector as government furnished material. Also, although requested by Congress to report workload data in direct labor hours, the report does not do so. DOD states that it does not collect such data from the private sector. Further, the report's projections of public-private depot workloads for fiscal years 1997 to 2001 are not consistent and comparable to historical data. Like the historical data, the future data includes in the public workload share the repair parts and services DOD purchases from the private sector, including those that are provided to private sector contractors as government furnished material. However, the future data does not include certain types

of private sector depot maintenance costs, including interim contractor support and contractor logistics support, which are included in the historical data. Projections of future workload mix will be further affected by risk assessments relating to repair workloads that are yet to be made. Our report includes a matter for congressional consideration for improving the methodology and process DOD uses to collect, analyze, and report depot maintenance workload data for the public and private sectors.

DEPARTMENT OF DEFENSE
WITNESS

RESPONSES
TO
MEMBER'S QUESTIONS

FOR THE
APRIL 16 HEARING RECORD
ON
DEPOT MAINTENANCE

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-013)

Question: What is your specific plan and timetable to provide for this work to be consolidated to the remaining DoD depots?

Answer: These workloads are reviewed on a workload by workload basis. A specific plan and timetable for all work has not been finalized.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-038)

You have stated that you expect to achieve 31 percent savings from competition. You have also stated that all the savings will be plowed back into the modernization accounts by the Services.

Question: Can you tell me how much the modernization accounts have been plused up as a result of the expected savings and which specific programs have benefited?

Answer: As I stated during my testimony, the modernization accounts have not been "plused up" in anticipation of privatization savings. We anticipate these efforts will generate additional savings to apply to modernization.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-039)

Question: What will be the outcome of this program if you do not achieve these savings?

Answer: We will only privatize and outsource when it provides the best value to the Department. We intend to pursue this program in a careful measured fashion, making adjustments as necessary.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-040-041)

Question: In the department's policy on depot maintenance, it is stated that "high quality, efficient maintenance service providers have emerged for many DoD overhaul requirements, creating a competitive private sector base from which the DoD can often achieve best value". How have you determined the best value in the private sector? When you are determining "best value", do you compare cost between private sector sources or between public and private sector sources?

Answer: Best value represents a consideration of the technical solution, quality, reliability, schedule, and price attainable in the open market. During the development of each acquisition strategy, the program manager, with support from a staff of technical experts, identifies which areas should be most heavily emphasized to provide an overall "best value" to the government. The resulting source selection will be processed under Formal Source Selection Procedures for Major Acquisitions (AFFARS Appendix AA) or Source Selection Procedures for Other Than Major Acquisitions (AFFARS APPENDIX BB), as appropriate. Following this strategy, the government can award to an offeror determined to provide the "best value" to the government rather than simply awarding to the low priced but perhaps worst performing offeror. A cost realism comparison is made for all offerors.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-042)

In the Policy Report it is stated that the current statutory 60/40 requirement is arbitrary and undermines effective depot maintenance management and that 60/40 prevents DoD from taking full advantage of private sector opportunities and is counter to efficient government and managerial principles.

Question: Could you give some specific examples where 60/40 has caused inefficiency or violates sound managerial principles?

Answer: Yes. It will force the Department to retain capacity that is simply not needed, at great expense to the taxpayer, that beginning in FY 1998. Each of the Military Departments has indicated at that time their "glide path" to reach Core capability requirements will drop below the 60 percent level.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-043)

Question Please give some specific examples where a workload has been moved from the public sector to the private sector, without a public/private competition, that are more cost effective in the private sector.

Answer: Statutory and regulatory provisions have precluded examples such as those you request.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-044)

In articulating your policy on depot maintenance management, the Policy Report states that you considered the national security interest of the United States including the need for ready and controlled sources from maintenance and repair, and the best value for limited DoD budget resources.

Question: With workload placed in the private sector, how will you assure a ready and controlled sources for depot maintenance?

Answer: Our Core methodology assures that our organic depots are maintaining critical facilities, equipment, and personnel. Core capabilities, along with the workloads necessary to support those capabilities, are matched to provide required support capabilities anticipated by approved Joint Chiefs of Staff scenarios.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-045)

Question: How will the determination of best value be made?

Answer: Best value is a combination of cost, quality, schedule, technical solution, and reliability. We develop scoring procedures and assign weights to each factor prior to the solicitation. Bidders are scored on the basis of their offers and past track records.

TMS was accomplished in the private sector. FY95 private sector workload consisted of 28 aircraft TMS, 17 engines types, and components for 6 aircraft TMS. For FY96, NAVAIR plans to privatize 26 aircraft TMS, 17 types of engines, and components for 7 aircraft TMS. Recent transitions of significant workloads to the private sector include the H-3 and T-2/A-4 aircraft and ARC-210 radio.

On the ship side, the private sector works primarily on surface combatants, amphibious assault ships, and auxiliaries. During FY94, private shipyards were assigned 106 ship availabilities; and for FY95, 90 availabilities were accomplished in the private sector. For FY96, we plan to conduct 109 availabilities in private shipyards.

The Navy's primary strategy for assignment of depot maintenance workload is to ensure a healthy and viable industrial base for both public and private sectors. Assignments are also based on operational and fiscal requirements.

MARINE CORP: None.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-046)

Question: Since each of the Services have been responding to direction to privatize more and more depot maintenance work over the last two years, please provide us with a list of systems and dates regarding the estimated savings resulting from these actions.

AIR FORCE: Answer: In implementing the 1993 BRAC decision to close Newark AFB, a contract was awarded to Rockwell to perform certain workload at the Aerospace Guidance and Metrology Center (AGMC) at Newark AFB Ohio.

In addition to saving very substantial moving costs (both in dollars and potential impact on readiness), the initial estimated costs of operating AGMC as a private entity have been determined to be about $5M per year lower.

Other proposals we are considering include contract prototype candidates at the closing ALCs and candidates currently under evaluation at the three remaining ALCs. Estimated cost savings will be evaluated.

Our Source of Repair Analysis Process and Depot Maintenance Interservice process has been used to determine the proper source, overall, for depot repair. Decisions to interservice, outsource or develop organic repair are made with cost, core, and capability requirements as inputs. We have privatized because we do not have or need the required capability organically and commercial repair represents best value expensive for the life of the system.

ARMY: Answer: The Army is consolidating all tactical missiles as a result of a previous BRAC decision. This will result in some 21 missile systems being privatized, as part of a government owned-contractor operated facility, at Letterkenny with all systems being consolidated by the end of FY98. In addition to the missiles, other workload in excess of our core requirements could be considered for privatization. The Army will continue its privatization effort for non-core workload, including generators, water purifiers, trucks, trailers, palletized loading system, and the M139 Volcano at Red River Army Depot. Presently, the Paladin program at Letterkenny, being done jointly by United Defense and Letterkenny, is scheduled for completion in FY98.

NAVY: Answer: The Navy has been privatizing 30%-40% of its depot maintenance workload for many years. On the aviation side, during FY94 workload for 18

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-047)

Your Policy Report states that "paramount in all Departmental policy considerations are (1) the readiness and sustainability requirements of DoD forces, (2) the optimum use of scarce Department resources, and (3) exploitation of the strength of United States commercial industries."

Question: On what do you base the readiness and sustainability requirements of DoD forces?

Answer:

Readiness and Sustainability are two of the major components of military capability (the ability to achieve a specified wartime objective).

Readiness. The ability of DoD forces, units, weapon systems, and equipment to deliver the outputs for which they were designed (includes the ability to deploy or employ without unacceptable delays); this is the primary metric used to measure the readiness of DoD forces. Each Service receives monthly command readiness reports from its component commander. These reports are formatted differently to meet respective service-unique requirements. However, all use both objective and subjective measurements of personnel, materiel, and training status to determine a unit's ability to execute its assigned wartime mission. Additionally each Joint Combatant Command submits a monthly readiness assessment of its forces to the Joint Staff.

These two parallel reporting channels are integrated at the Joint Monthly Readiness Review or JMRR. At these meetings, each of the Service Operations Deputies present its Service's report; the J-3 briefs each CINC's report. The Joint Readiness Oversight Council (JROC), a four-star panel composed of each Service's Vice Chief, and headed by the Vice Chairman, Joint Chiefs of Staff, receives this information. This forum has proven very effective at identifying systemic or materiel deficiencies that warrant referral to the Joint Warfare Capabilities Analysis for a long term solution.

Sustainability: DoD defines sustainability as the ability to maintain the necessary level and duration of operational activity to achieve military objectives. It is a function of providing for and maintaining those levels of ready forces, materiel, and consumables necessary to support military effort. Simply stated, sustainability is the support

provided to ensure that readiness of DoD component forces is maintained over time. Each military Department is responsible for logistics support to its forces. Military departments use feedback received from field commanders in the monthly JMRR process to measure the effectiveness of their logistics support. Deficiencies in supplies, transportation, or maintenance capabilities are identified and solutions sought through management decisions derived from the JMRR or JWCA process. Since its inception, in early 1995, the JMRR has gained the solid support of the CINCs as a good process to measure readiness and sustainability.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-048)

Question: Is the optimum use of scarce Department resources based on the availability of funds or on employee levels?

Answer: The pacing factor is funds.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-049)

Over the years, there has been concern voiced with the ability for the private sector to respond during times of national emergencies and concerns for work stoppages due to strikes and/or corporate business decisions.

Question: How would you address these concerns?

Answer: A competitive market place with a number of potential providers, along with modern business practices will provide market alternatives. This minimizes the types of risks you describe. Additionally, as the Military Departments review the workloads required to support their Core capability requirements, a risk assessment is made of the level of private sector support available. If the risk is too great, the workload would be done by the Departments.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-050)

What happens when the private sector makes a business decision to not continue a particular workload and by that time, the public depot previously accomplishing the workload has since closed?

Answer: A critical workload with a high risk, single source would typically not be appropriate for outsourcing. We would require a competitive market place , or assurances of a long term commitment. Again, the Military Departments review the workloads required to support their Core capability requirements. A risk assessment is made of the level of private sector support available. If the risk is too great, the workload would be done by the Departments.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-051)

The Policy Report states that it is your intention to place all new weapon system's depot-level requirements with the original equipment manufactures.

Question: How can you maintain DoD depots if none of the new weapon systems are placed in these depots?

Answer: The question makes an inaccurate assumption. Only maintenance of new weapon systems and equipment not required to support Core capability requirements will be assigned to the private sector in accordance with the Department's new policy.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-052)

Question: Is it true that if no new weapon systems are placed in the public depots, they will whither and close in nine years?

Answer: Only maintenance of new weapon systems and equipment not required to support Core capability requirements may be assigned to the private sector in accordance with the Department's new policy. The depots will not wither and close. On the contrary, we expect to have a vigorous and efficient organic depot system.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-053)

For workload remaining after CORE requirements have been satisfied, your report states that the "remaining workload must be accomplished such that the DoD attains best value," and that organic depots could compete with the private sector for this workload when it is determined there is not adequate competition from private sector firms alone.

Question: Since the Department suspended competitions nearly two years ago, will the Department reestablish and fund competition offices at the public depots?

Answer: We would expect Commanders to staff their depots appropriately to carry out their missions.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-054)

Question: Why would you restrict competitions between the public and private sector only when there is inadequate private sector capabilities? Would it not make sense to compete for all workloads to achieve the best value?

Answer: The organic depot system should be sized to meet Core capability requirements. Always competing public depots could lead to retaining or funding unnecessary capacity. Moreover, DoD cannot readily increase or decrease employment levels at the rate required for this purpose. Public competition also diverts scarce DoD resources because bid preparation is expensive and duplicative. Thus, public/private competion will lead the Department to manage its depots inefficiently. We will achieve significant savings through competition in the private sector. Profit is a strong motivator to improve processes providing additional savings.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-055)

Question: What has been done since the Coopers & Lybrand study to make public vs. private competitions more equitable?

Answer: We have taken action to establish internal controls in the depots. Further refinements have been made to the *Cost Comparability Handbook*.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-056)

Question: Last year, the Air Force "certified" to the BRAC Commission that most of the workloads at Kelly and McClellan Air Logistics Centers were required to be accomplished by public depots in order to sustain CORE depot maintenance capabilities. What has changed that would now allow this CORE workload to be accomplished in the private sector?

Answer: Core capability requirements change as a result of such factors as force structure changes, changing threats, introduction of new weapon systems, the aging or modification of existing weapon systems, changes in private sector capabilities, and even changes in battle doctrine. For those reasons it is necessary to review the core capability requirements at least on a regular basis. These reviews are conducted at a minimum of every two years. Just as the capability requirements change, the workloads required to support those capabilities will also change. Additionally, different workloads can be applied to support the same capabilities.

It is important to note that not all critical or mission-essential weapon systems and equipment are maintained in organic depot maintenance facilities, but certain capabilities to perform depot maintenance on designated weapon systems must be maintained organically. Simply put, core represents the amount of maintenance capability that the DoD Components must maintain in organic depot facilities to ensure that contingency operations are not compromised because of lack of essential depot maintenance support.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-057)

Question: In Secretary Perry's response to Congress on the report of the Commission on Roles and Missions, he indicated that the Department would examine the establishment of single managers for aircraft depot maintenance by this spring. What is the status of that study?

Answer: The Department is studing the following options:

- Single Manager Service
- Reengineering the existing process
- Dual managers (Fixed wing & Rotary)
- Single agency (Joint Service)
- No change

The Department Depot Maintenance Council will sponsor a decision brief after a full study and Service coordination.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-058)

Question: It is my understanding that the Department of the Navy plans to transfer the current workloads from the public depot at Louisville to the private sector through sole source contracting. Can this be done, and can it be done without violating Section 2469 of Title 10 which mandates a public/private competition to move workload valued over $3 million?

Answer: In the case of Louisville, the recommendation specifically provides: "Transfer workload, equipment, and facilities to the private sector or local jurisdiction as appropriate if the private sector can accommodate the workload onsite; or relocate necessary functions along with the necessary personnel, equipment, and support to other naval technical activities..." During the BRAC 95 process, the Navy determined that no other existing public depot could perform the Louisville workload without significant construction, equipment, and personnel additions. Notice of the availability of the facilities was provided to other military departments and Federal agencies, but no expressions of interest were received. The local redevelopment authority received several inquiries regarding the facilities and workload from defense contractors. The local redevelopment authority entertained proposals from several of these contractors before selecting their sublessees. Before the Navy finally determines which of the two BRAC alternatives is appropriate, it will conduct a comparison of the costs to have the workload performed by the private sector in place or by other naval technical centers.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-059)

Question: Has DoD approved this proposal?

Answer: No.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-060)

It is my understanding that the Department of the Navy plans to award a sole source contract for the overhaul of ten CH-53 helicopters this summer. I also understand that CH-53 helicopters are currently overhauled and repaired at the Cherry Point Naval Aviation Depot.

Question: Is the overhaul and repair of CH-53 helicopters considered CORE workload?

Answer: These quantities are over and above that necessary to sustain our Core capabilities.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-061)

Question: As NADEP Cherry Point is currently overhauling CH-53 helicopters, how can the Navy award a contract to the private sector for this workload without a competition as required by Section 2469 of Title 10?

Answer: These are new workloads that are funded through a supplemental appropriation. The Department is not changing the source of repair for this particular workload; it is not currently "being performed by a depot-level activity of the Department of Defense."

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-062)

Question: Was the overhaul of these ten CH-53 helicopters in your budget for this fiscal year, and if not, where will the funds come from?

Answer: As stated above, Cherry Point was budgeted to perform standard depot-level maintenance (SDLM) on 27 CH-53s in FY 96. The funds for Sikorsky to perform SDLMs on up to 10 additional CH-53s have not been identified at this time.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-063)

Question: Has DoD approved the Navy's proposal?

Answer: The head of the procuring activity (the Naval Air Systems Command) or his designee is authorized to approve the award of sole source contracts to Sikorsky Aircraft for this effort.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-064)

Question: DoD has decided to move toward increased use of contractor support for depot-level maintenance. What assurances can you give that a decision made by a Service Secretary to accept the risk of contracting out will be a sound, rationale, and economical one?

Answer: We will only privatize and outsource when it provides the best value to the Department. We intend to pursue this program in a careful, measured fashion making adjustments as necessary. The Military Departments will continue to review the workloads required to support their Core capability requirements and risk assessments will be made of the level of private sector support available. If the risk is too great, the workload would be performed organically.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep. Bateman
QUESTION NUMBER (HN-22-065)

Question: Under the current proposal to leave the workload at Kelly and McClellan, how will you solve the excess capacity problems at the remaining three Air Logistics Centers?

Answer: The Department will size the organic depot system to Core. That workload currently performed at McClellan and San Antonio that is ultimately identified by the Air Force as necessary to sustain Core capabilities will be moved to other organic DoD depots. This will result in a significant increase in capacity utilization at the three remaining Air Logistics Centers. Additionally, each of the DoD Components has initiatives designed to consolidate and make more efficient use of maintenance assets. These innovative maintenance support concepts are designed to reduce duplication, including duplication with intermediate-level maintenance. In the Air Force, the initiative is Lean Logistics. The Department is also encouraging private industry to take advantage of underutilized capacity associated with Core capabilities, which will reduce our costs and allow industry to avoid capital investment. We have already had success with the Army's Paladin and the Abrams upgrade programs. We will also continue to layaway and mothball equipment and facilities not currently required, which will reduce the logistics footprint and further reduce support costs.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-066)

In your policy statement on depot-level maintenance, there is a discussion that identifies the steps that a Service Secretary must follow in determining CORE and non-CORE workloads.

Question: Does DoD plan to supplement this policy statement with implementing guidance so that risk assessments and final decisions on CORE and non-CORE workloads will be consistent among the Service Secretaries?

Answer: Because of the differing missions of each of the Services, the risks will never be the same. For example, doctrine calls for the Air Force to operate from fixed airfields, while the Marine Corps must operate as an expeditionary force taking 30 days of sustainment with the deployed units. Therefore, no one size fits all procedure can logically implemented.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-067)

Question: If not, why not?

Answer: As explained above.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-068)

Question: In your methodology for CORE and non-CORE decision making, you identify three basic risks: readiness, sustainability, and technology. Do you plan to introduce an economic risk into this methodology in its decision to keep work in the public depots or to outsource the work? If not, why not?

Answer: The Core methodology already provides for an assessment of the risk associated with private sector capability. This assessment requires consideration of the private sector's ability to perform economically with necessary capability and capacity. It also requires demonstration of past performance. If this risk is not acceptable, then the workload is designated as required to support Core capabilities and is performed organically.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-069)

Question: In the Policy Report, DoD proposes to compete above CORE workload with the private sector. How far will DoD go to ensure that it has an adequate competitive base for these workloads? Has DoD determined the cost to qualify second sources of repair for work that is currently sole source?

Answer: It is our intent that through the use of modern business practices, market forces will ensure a competitive environment for the vast majority of our workloads. It generally is not the role of the Department to establish second sources beyond that of our organic depots. We have been pleased with the growth of both the number and types of high quality, efficient maintenance service providers that have merged for many DoD overhaul requirements, creating a competitive private sector base from which the DoD can often achieve best value.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-070)

Question: Some highly complex DoD systems are now solely contract supported for the life of the system. How will DoD factor workloads for these systems into its CORE methodology? To what extent will these workloads be subject to DoD's best value evaluations?

Answer: Private sector sources can, and do support mission essential workload at acceptable risks to the warfighter. The minimum essential capability for these workloads has been considered in the Core calculations. Concerning best value evaluations, each workload is a unique situation. For example, some support is considered as part of a larger over-all life cycle support evaluation, some are competitively awarded, and some must be awarded sole source due to security and other considerations.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-071)

DoD intends to have selective public/private competitions for workloads where adequate competition does not exist in the private sector. For DoD depots to be a reasonable competitor for these workloads, requires that they have the capability and capacity to perform the workloads.

Question: What are DoD plans for ensuring that its depots can be realistic competitors for these workloads?

Answer: The reasons for maintaining Core capabilities include flexibility and a surge base. Thus, the very reasons for Core ensure that the depots can be realistic competitors.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-072)

Question: Why did DoD make the decision to not allow the depots to compete for all non-CORE workloads?

Answer: The organic depot system should be sized to meet Core capability requirements. Always competing public depots could lead to retaining or funding unnecessary capacity. Moreover, DoD cannot readily increase or decrease employment levels at the rate required for this purpose. Public competition also diverts scarce DoD resources because bid preparation is expensive and duplicative. Thus, public/private competion will lead the Department to manage its depots inefficiently. We will achieve significant savings through competition in the private sector. Profit is a strong motivator to improve processes providing additional savings.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-073)

Question: Would not the depots be more economically efficient if their workload was closer to their current capacity as opposed to artificially sizing them to CORE?

Answer: Our Core methodology has a procedure to ensure that workloads that sustain Core are economically and efficiently sized. When our depots are sized to meet our Core capability requirements, they will be operating in an efficient and economical manner.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-074)

Question: The Congress and DoD agree that a CORE capability should exist in public depots. Has DoD examined the revised CORE requirements for each Service to test for reasonableness and to determine what percent of the maintenance funding will be CORE?

Answer: Yes, the briefing charts I presented during my testimony on the projected workloads provided a graphic display of the results of our analysis.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-075)

In reading your Policy Report, it appears that you did not address the effect, if any, that the current 60/40 rule has on military readiness and sustainability.

Question: Does DoD have any data that would provide some insight into the potential effect from keeping this rule or repealing the rule?

Answer: I can make two observations here. First, the 60/40 provisions forces the Department to use scarce resources in an inefficient manner and precludes us from taking advantage of potential savings that would accrue from competitive forces in the commercial market place. Second, retaining 60/40 would of course mean about 60 percent of the work would be performed organically while we project that with repeal the aggregate workload mix would be about 50/50.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-076)

DoD's Workload Analysis Report states that the Army plans to establish a government owned, contractor operated (GOCO) depot maintenance facility for tactical missile maintenance. The proposed GOCO facility will be located at the Letterkenny Army Depot site rather than transferring work to Tobyhanna Army Depot, as recommended by DoD. The BRAC Commission modified the DoD recommendation by transferring the workload to either Tobyhanna or the private sector.

Question: How does the Army's plan to establish the GOCO operation meet the spirit and intent of BRAC recommendations which were established to divest the Government of unneeded infrastructure?

Answer: The BRAC Commission provided the Army with an option to do privatization with segments of the Letterkenny workload. The Army has determined that it is both prudent and economically sound to establish a government owned-contractor operated facility at Letterkenny. The BRAC recommendation calls for transferring only 17% of the missile (guidance only) workload from Letterkenny to Tobyhanna. The remaining 83% was not addressed. The Army deemed privatization as its best option. Tobyhanna has no ammunition storage capacity and would require considerable major construction to establish that capacity, plus would incur considerable costs for additional construction as a result of the BRAC 95 decision to transfer workload from Sacramento Air Logistics Center. Only that infrastructure needed would be retained. Excess infrastructure would be handed over to the Local Redevelopment Authority.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-077-078)

Question: Please describe the approach, methodology, and level of documentation that the Army developed for its risk assessment leading to the proposed GOCO facility at Letterkenny.

Question: Please describe the results of the Army's economic analysis supporting the GOCO facility at Letterkenny to include specific options considered, and benefits and savings from GOCO operation compared to the costs and benefits of consolidating the work at Tobyhanna.

Answer: Based on the BRAC Commission's recommendation, there was substantive change in the circumstances and rational that lead to the DoD proposal to realign missile guidance maintenance out of Letterkenny.

The Commission recommended the transfer of common-use ground communication electronic workload to Tobyhanna Army Depot from the Sacramento Air Logistics Center. This is greater than the amount of workload that would have transferred into Tobyhanna from Letterkenny under the original DoD proposal. The transfer of this Sacramento Air Logistics Center workload ensures the economic viability of Tobyhanna in the future.

Privatization of missile guidance in place as the prototype effort by the Army, in accordance with the options laid out by the BRAC Commission and recommendations of the Commission on Roles and Missions is the course the Army is pursuing. Tobyhanna is economically viable without the minimal (17%) workload it would receive from Letterkenny. Substantial facilitization costs would be required in order to move the Letterkenny missile guidance workload to Tobyhanna. The costs to consolidate missile maintenance at Letterkenny are virtually sunk costs as of today, including construction, training, movement of personnel and equipment, and process certification. Government ownership of the facilities provides a built-in fail safe device for a privatization prototype. Presently, a detailed economic analysis of multiple options is under way.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION:
QUESTION NUMBER (HN-22-079)

Question: It appears to me that DoD wants to eliminate much of the infrastructure costs associated with its depots in order to free up funds for other priorities such as force modernization. If DoD is allowed to do so, what specific steps would be used to eliminate the excess infrastructure?

Answer: The Department will size the organic depot system to Core. That workload currently performed at depots designated by BRAC for closure that is ultimately identified as necessary to sustain Core capabilities will be moved to other organic DoD depots. Additionally, each of the DoD Components has initiatives designed to consolidate and make more efficient use of maintenance assets. The Navy has the Regional Maintenance Concept, the Air Force has Lean Logistics, and the Army has Integrated Sustainment Maintenance. Each of these innovative maintenance support concepts is designed to reduce duplication. There are also partnering initiatives that have been discussed which would help to relieve the Department of some of the ownership costs. The Department will also continue to layaway and mothball equipment and facilities not currently required which will reduce the logistics footprint and further reduce support costs.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-080)

Question: Has DoD developed plans and strategies to accomplish a reduction in the depot infrastructure?

Answer: This is an iterative on-going process utilizing some of the steps discussed in the previous question.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-081)

Question: What would you expect the depot infrastructure to look like after downsizing?

Answer: Once we get through the closures resulting from the various BRAC rounds, and we have sized the remaining depots to match our Core capability requirements, I foresee a strong, efficiently workloaded, and economical organic depot system.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-081A)

Question: If DoD is allowed to size the depot infrastructure to CORE, what depots would be affected? What would employment levels look like?

Answer: All of our depots would be effected. All of the depots perform workloads over and above that necessary to sustain Core capabilities. Employment levels would be matched to the workloads required to sustain our Core capabilities.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-082)

Question: DoD collected cost data for interim contract support, contractor logistics support, and direct support to private sector sources from organic depots. Why did DoD not include these costs in the future year forecast of work going into the private sector?

Answer: These are not part of the depot maintenance appropriations accounts, and are imbedded in other accounts. While ICS and CLS contain some funding for depot maintenance, the share is not identified. This precludes developing accurate projections. These funding lines also include engineering support services, spares, materiel management, and tech support.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-083)

Question: Secretary White: The 1995 BRAC Commission estimated that the closure of McClellan Air Force Base and the realignment of Kelly Air Force Base would allow the Air Force to achieve a net savings of $151.6 million during the 6 year implementation period allowed by law. This estimate was based, in part, on the assumption that closure and realignment actions would begin in fiscal year 1996 and be completed by the year 2000. However, due in part to concerns about the high cost of closing the two base's Air Logistics Centers, current plans call for many closure and realignment actions to be delayed until the year 2001. What impact will this delay have on the net savings that can be achieved during the 6 year implementation period?

Answer: AFMC has started base closure and realignment actions, but due to the long lead time for MILCON cost, minimizing impact on readiness, and workload and environmental concerns, some units will not be able to move until the year 2001. AFMC will use a phased approach in the realignment and closure of the Air Logistics Center's workload. This will minimize the disruption of mission critical resources to the war fighter. As stated previously our projected non-recurring savings to privatize versus close and move were over $600 million. True recurring savings will not be known until actual contract proposals are received and organic moves are completed.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-084)

One of the reasons given for delaying the closure of Kelly and McClellan Air Logistics Centers is to minimize the adverse impact on readiness. However, the three Naval Aviation Depots recommended for closure by the 1993 BRAC Commission are all expected to be closed within three years or less.

Question: Did the rapid closure of the three Naval Aviation Depots significantly degrade the Navy's readiness?

Answer: No. There was not a significant degradation in readiness, but comparatively speaking these were much smaller facilities.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-085)

Question: The premise, shown on your charts, is that DoD has saved 31 percent by outsourcing based on competitions under OMB-Circular A-76. I assume you did not include any of the depot competitions in this 31 percent because depots are excluded from A-76 competitions. It appears to me that you are comparing these savings to savings you anticipate by outsourcing depot workload. If all this is true, why would you not let the depots compete for all depot-level workload that will be outsourced?

Answer: The CNA study was illustrative of the potential savings obtained through competition. CNA also stated that the savings were twice as high when the private sector won the competition. We do not believe the public sector should be competing for maintenance work when there is adequate private sector competition. The organic depot system should be sized to meet Core capability requirements. Competition could lead to retaining unnecessary capacity. We will achieve these savings through competition in the private sector. Profit is strong motivator to improve processes providing additional savings. Competition also diverts scarce resources - bid preparation is expensive. CNA has also studied 200 ship and 5 aviation depot competitions which showed similar savings.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-086)

Question: If you were to allow the depots to compete for any and all workload that would be offered to the private sector, would you be able to retain sufficient depot employees to accomplish this workload if the depot wins?

Answer: The situation you describe would lead, in some cases to wide swings in workload and corresponding swings in efficiency. The constant need to acquire and then shed employees, particularly given the personnel procedures applicable to the public sector, would make it extremely difficult to match workload to workforce.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-087)

Question: On your chart showing your proposed CORE levels through the out years, why is the Army percentages higher then that of the other Services?

Answer: Because of the differing missions of each of the Services, the risks will never be the same. For example, doctrine calls for the Air Force to operate from fixed airfields, while the Marine Corps must operate as an expeditionary force taking 30 days of sustainment with the deployed units. Therefore, no "one size fits all procedure" can logically be implemented and there will be differences in the percentage levels. Because the Marine Corps levels were included in the Department of the Navy, you could not see that the Marine Corps percentages are even higher than the Army.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Bateman
QUESTION NUMBER (HN-22-088)

Question: Within the DBOF funded activities, why are the customers at these activities charged for the entire overhead of the base where the DBOF activity is located? It is my understanding that at some locations, the customers are paying for overhead costs that have nothing to do with the product or service provided.

Answer: This is not entirely true. The customer is charged only where there is a related benefit. Obviously there are certain functions that must be allocated on a base wide basis since all tenants benefit, such as firefighting, police, roads, and grounds keeping.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Tillie Fowler
QUESTION NUMBER (HN-22-022)

In the Department's new depot policy, DoD assures the Congress that the private sector can assume wartime support of some mission essential systems and components with "acceptable risk."

Question: What data has been assembled and analyzed to support this conclusion? Please provide this data.

Answer: I don't think that it is a question of data but rather of experience. In those cases where there are multiple providers, the military services may determine that the market place will assure the services are provided economically with low risk. Risk is taken care of by the market place; workload can be shifted to another entity should a provider have difficulties. An example is the depot maintenance of conventionally powered ships. Almost all of that work is provided in the private sector. In those cases where there is only one, or a limited number of suppliers, risk is addressed two ways. Contractual provisions obligate performance and our Core methodology provides for the capability to perform that workload in public depots. This cuts to the very reason for maintaining an organic capability. Core exists to minimize risk of non-support from the private sector.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Tillie Fowler
QUESTION NUMBER (HN-22-023)

Question: What is the Department's definition of "acceptable risk?"

Answer: Risk is assessed on a case by case basis. However, generally speaking, when an adequate number of private sector sources exists, and those sources are economical, possess the capability and capacity to do the work, and have demonstrated proven past performance, then risk is acceptable.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Tillie Fowler
QUESTION NUMBER (HN-22-024)

Question: What methodology or risk analysis/assessment did you use to arrive at this definition? Please provide the details.

Answer: Risk assessment is both a quantitative and qualitative process. Senior warfighters have carefully estimated the resources required to support our national security strategy. Then as discussed previously, the outsourcing risk assessment is performed. This assessment is an informed decision based upon experience, judgment, and market place performance.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Tillie Fowler
QUESTION NUMBER (HN-22-025)

Question: How does the Department justify going from a situation in which 100% of a given workload is identified as being CORE today but changes to zero percent tomorrow?

Answer: Core capability requirements change as a result of such factors as force structure changes, changing threats, introduction of new weapon systems, the aging or modification of existing weapon systems, changes in private sector capabilities, and even changes in battle doctrine. For those reasons, it is necessary to review the core capability requirements at least on a regular basis. These reviews are conducted at a minimum of every two years. Just as the capability requirements change, the workloads required to support those capabilities will also change. Additionally, different workloads can be applied to support the same capabilities.

It is important to note that not all critical or mission-essential weapon systems and equipment are maintained in organic depot maintenance facilities, but certain capabilities to perform depot maintenance on designated weapon systems must be maintained organically. Simply put, core represents the amount of maintenance capability that the DoD Components must maintain in organic depot facilities to ensure that contingency operations are not compromised because of lack of essential depot maintenance support.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Tillie Fowler
QUESTION NUMBER (HN-22-026)

Question: For workloads associated with CORE capabilities that are contracted out, what weight is given in DoD's risk analysis/assessment to the possibility of each of the following:

- Labor disputes and strikes.
- Bankruptcies.
- Corporate mergers.
- Corporate decisions to discontinue performance of maintenance and repair of a contracted workload because that workload is insufficiently lucrative.
- Lawsuits associated with the transfer of technical data.

Answer: Workloads required to support Core capabilities are not contracted out.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Tillie Fowler
QUESTION NUMBER (HN-22-027)

Question: Listed by Military Service, what specific programs, systems, and platforms does DoD consider to be necessary to fight and win two MRCs? What specific organic depot-level maintenance and repair activities and capabilities does DoD believe are required to support these programs, systems, and platforms?

Answer: The specific systems, or equipments necessary to support the two MRC scenarios would be in the thousands. Rather than provide that list, we are providing a list of the weapon systems and support capabilities that are necessary to sustain our Core capability requirements. If upon review you require additional information, additional detail will be provided.

Army Depot Maintenance CORE Distribution

		CORE Requirements (DLH in millions)
Total CORE Requirements		11.22
Major Commodity/System Type		
COMBAT VEHICLES		2.91
M1 Tanks	0.74	
Bradley FVS	0.87	
MLRS	0.51	
M113 Family	0.29	
M9 ACE	0.16	
Artillery/FAASV	0.34	
AIRCRAFT		3.45
Apache	1.56	
Apache Longbow	0.35	
Blackhawk	1.54	
COMMUNICATIONS & ELECTRONICS		4.76
SINCGARS	1.98	
MLRS Components	0.06	
Night Vision & Electro O	1.26	
Embedded in Systems	0.14	
Minimum Skills Systems	1.13	
Other	0.19	
SMALL ARMS		0.10
MISSILES		0

Navy Depot Maintenance CORE Distribution

	Items	CORE Requirements (DLH in millions)
Total CORE Requirements		37.659
Naval Shipyards		23.280
• **Breakout by Ship Class**		*18.380*
– SSBN (Trident)	4 (Pac)	
– SSN (688 Class)	33 (11 Lant, 22 Pac)	
– Carriers (CVN)	6 (2 Lant, 4 Pac)	
– Amphibs	5 (Total)	
* LHA	2 (1 Lant, 1 Pac)	
* LHD	2 (1 Lant, 1 Pac	
* LCC	1 (1 Lant)	
– Surface Combatants	12 (Total)	
* CG	4 (1 Lant, 3 Pac)	
* DD	5 (1 Lant, 4 Pac)	
* DDG	3 (1 Lant, 2 Pac)	
• **Non-ship details**		*5.000*
– RA/TA		2.000
– Other Productive Work		3.000

Navy Depot Maintenance
CORE Distribution (Continued)

Naval Depots	Items	CORE Requirements (DLH in millions)
		12.817
• Breakout by Aircraft T/M/S		*2.088*
– AV	19	
– CH-46E	47	
– CH/MH/RH-53D/E	29	
– E-2C	12	
– EA-6B	7	
– F-14A/B/D	13	
– F/A-18A/C/D/E/F	43	
– P-3C/EP-3E	12	
– S-3B/ES-3A	17	
– V-22	Future	
– Interservice	.052 DLH	

NOTE: Does not include CORE capabilities maintained by other Services for AH-1W, E-6A, HH-60H, SH-60B and UH-1N.

Navy Depot Maintenance
CORE Distribution (Continued)

	Items	CORE Requirements (DLH in millions)
• **Breakout by Aircraft Engines**		*.361*
– F402-RR-406/A/408	51	
– F404-GE-400/2/F414-GE-400	78	
– J52-P-408/A	17	
– T400-CP-400	31	
– T406-AD-400	Future	
– T58-GE-16	100	
– T64-GE-413/A/415/A/416	51	
– TF34-GE-400/B	25	
– Interservice	.154 DLH	

NOTE: Does not include CORE capabilities maintained by other Services for CFM56-2A-A, T46-A-14, T56-A-425/427, T700-GE-401/C, TF30-P-414/A, and F110-GE-400.

Navy Depot Maintenance
CORE Distribution (Continued)

	CORE Requirements (DLH in millions)
• **Components**	*2.610*
– Structural	.767
– Engine/Power Plant/Fuel	1.018
– Electrical/Electronic	.783
– Support Equipment	.052

NOTE: Does not include CORE capabilities maintained by other Services for components.

• **Other**	*3.474*
– Support Services	1.749
– Product Support Directorate**	.470
– Manufacturing	.750
– Modifications (Concurrent)	.505

** Includes direct depot maintenance engineering support.
NOTE: Does not include CORE capabilities maintained by other Services for Other.

• **Last Source/Non-Core**	*1.485*
• **Acquisition In-Service Engineering/Logistics**	*2.799*

Navy Depot Maintenance
CORE Distribution (Continued)

	CORE Requirements (DLH in millions)
Naval Warfare Centers	1.236
• Electronic subassemblies	
• Circuit cards	
• Microwave tubes	
• Radar antennas	
• Gun system overhaul	
• Torpedoes	
• Undersea warfare combat systems	
• Undersea targets	
• Other undersea warfare systems (mines and acoustic countermeasures).	
Space and Naval Warfare Systems Command	.326
• Communications & electronic equipment	
• Strategic systems equipment	

Marine Corps Depot Maintenance
CORE Distribution

	CORE Requirements (DLH in thousands)
Total CORE Requirements	**2,010**
Major Commodity/System Type	
• COMMUNICATIONS/ELECTRONICS	239
Principle End Items (222K)	
- AN/MRC-183A Radio	
- AN/MRC 110 Radio	
- AN/PRC-68 Radio	
- SB-3614/Auto TeleType	
Secondary Depot Reparables (17K)	
• ENGINEER	478
Principle End Items (478K)	
- 18,000 BTU Air Conditioner	
- MEP-003A Generator	
- MEP-005A Generator	
- SIXCON Pump Module	
- Storage Tank Module	
- 50K RTCH-Rough Terrain cargo Handler	
- Rough Terrain Articulating Forklift	

Marine Corps Depot Maintenance
CORE Distribution (Continued)

Major Commodity/System Type	CORE Requirements (DLH in thousands)
• AUTOMOTIVE	662
Principle End Items (660K) - MK-48 Power Unit - M149 Water Trailer - M923A1 5 Ton Cargo Truck - M998 Cargo Truck - M1-43 HMMWV-High Mobility Multi-Purpose Wheeled Vehicle - MK 14 Trailer	
Secondary Depot Reparables (2K)	
• ORDNANCE	631
Principle End Items (619K) - M2A2 Aiming Circle - SMAW - Squad Medium Assault Weapon - AN/GVS-5 Night Vision Sight - Light Armored Vehicle 25mm Chain Gun - 5- Cal Machine Gun	
Secondary Depot Reparables (12K)	

Air Force
Pre-Risk CORE Requirements

Commodity	OC	OO	SA	SM	WR
Airframe	2,640,197	1,520,798	891844	750683	2634416
Engines	1,370,060	102,938	1064475		
Components					
Munitions	589	179,521	7	105	66
Electrical Comp	20,782	36,208	29973	208947	28656
Support EQ	388	9,087	241337	46609	25767
Avionics	17,240	227,019	821	54293	1133928
Ground Electronics	51	18		336500	1233
Missile Components	22	119,882	25	3843	20511
Pneudraulics	123,435	0			62
Hydraulics	0	1,073	1702	346599	
Oxygen Components	87,888				
Life Support Systems	41	232	867		1966
Nuclear Components		10,587	68033		
Propellers					51411
Shelters					
Landing Gear	109	390,326	6627	2943	246
Photo Recon		41,841	17607		

Air Force
Pre-Risk CORE Requirements
(Continued)

Commodity	OC	OO	SA	SM	WR
Training/Simulators		43,245			98
Electrical/mechanical instruments			2340		
Flight control instruments				221741	
Automatic flight control					
Engine instruments	174,803				
Gyros					164202
Navigational instruments		51,308			
Aircraft Related	243,706	46,340	118293	173323	416646
Engine Related	1,030,142	9,162	2202060	5983	1200
Composite Related	0				
Other	1,696	110,373	9276	31485	45461
OMEI	55	95,307	9,278	921923	
SOFTWARE	506,831	827,903	27,535	230326	1047271
MISSILE	0	376,766	0		
Area Base	13,690	135,930	0	69383	153072
Manufacturing	230,750	79,470	205696	242062	363802
Storage					
TOTAL	6,462,474	4,415,329	4,897,795	3,646,746	6,072,014

TOTAL PRE-RISK CORE REQUIREMENTS **25.5 M**

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Tillie Fowler
QUESTION NUMBER (HN-22-028)

Question: Please provide a copy of any analysis performed by the Air Force or DoD to date, which details the cost advantages of privatizing-in-place activities currently resident at Sacramento and San Antonio ALCs, as opposed to transferring those workloads to other facilities, either public or private.

Answer: Attached are the risk and cost analysis results associated with closing and moving the workloads versus Privatizing-In-Place (PIP). The PIP option significantly reduces the risk to operational readiness and reduces estimated overall BRAC costs by over $600 million. This is only the nonrecurring savings.

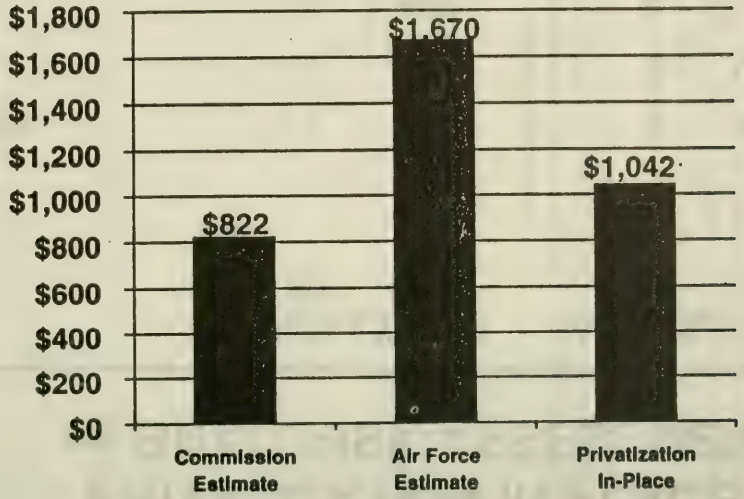
Our experience with privatizing the Aerospace Guidance and Metrology Center (AGMC) in Ohio showed that we also achieved a recurring cost savings of approximately $5 million. AGMC also showed that the exact expected savings can not be finally quantified until we have firm contractor proposals for those McClellan and Kelly workloads we decide to compete.

PRIVATIZATION IN PLACE
vs BRAC RISK ASSESSMENT

Risk Codes Low Medium High	KELLY AFB		McCLELLAN AFB	
	PIP	BRAC	PIP	BRAC
* 1. Qualified Pers	L	H	L	H/M
* 2. Facilities	L	L	L	M/L
* 3. Equipment	L	M/H	L	M
4. Depot Mgmt	M	L	M	M
5. Compl Repair Proc	L	L	L	M
6. Data Access	L	L	L	L
OVERALL	L/M	H/M	L/M	H/M

* Critical Elements

ALC COST ALTERNATIVES
Constant FY96 ($M)



QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Tillie Fowler
QUESTION NUMBER (HN-22-029)

Question: In your testimony you referenced a 31% savings from A-76 competitions (based on OMB Circular A-76 cost data). It is my understanding that the data used to compute the 31% figure represent projected savings, not realized savings. Audits of a number of these have reportedly revealed significant cost overruns, resulting in far less, if any, savings. What data do you have on actual, as opposed to projected, savings?

Answer: The study I referenced in my presentation was conducted by the Center for Naval Analysis and was based on actual signed contracts. As I stated previously, it is one of several studies that indicate savings of this magnitude are possible. We have not audited this particular study, but it is consistent with other studies that have addressed outsourcing.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Tillie Fowler
QUESTION NUMBER (HN-22-030)

One of the charts towards the end of your oral presentation detailed the trend in organic depot-level maintenance and repair workloads, by Military Service, through FY 2001. The chart and your testimony indicated reductions in organic workloads on the order of 10 to 15 percent. Did these calculations include projected expenditures for depot-level maintenance and repair purchased in the form of Contractor Logistics Support or Interim Contractor Support? If not, could you please provide adjusted data reflecting these projected expenditures?

Answer: Those calculations did not include ICS or CLS. Those projections are as follows:

DoD Depot Maintenance Programs
FY1991 to FY2001
In Constant FY 1996 Dollars (Millions)

	FY97	FY98	FY99	FY00	FY01
Army					
Public	931	678	729	669	657
Private	455	544	579	589	571
Total	1,386	1,222	1,308	1,258	1,228
	FY97	FY98	FY99	FY00	FY01
Air Force					
Public	2,421	2,054	1,834	1,755	1,710
Private	1,840	2,147	2,507	2,623	2,526
Total	4,261	4,201	4,341	4,378	4,236
	FY97	FY98	FY99	FY00	FY01
Navy - DON					
Public	3,386	3,267	3,130	3,328	2,939
Private	2,165	2,235	2,810	2,919	2,875
Total	5,551	5,502	5,940	6,247	5,814
	FY97	FY98	FY99	FY00	FY01
DoD					
Public	6,738	5,847	5,546	5,608	5,155
Private	4,460	4,893	5,858	6,089	5,937
Total	11,198	10,926	11,590	11,884	11,278

Includes ICS/CLS in all years

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Jim Hansen
QUESTION NUMBER (HN-22-005)

Please provide DoD's legal opinion concerning the following questions:

Question: Can the Department of Defense modify or reject any of the recommendations contained in the final list of base closure and realignment recommendations forwarded by the BRAC Commission?

Answer: The Department of Defense does not intend to modify or reject any BRAC recommendations and is moving forward to implement all recommendations as made by the Commission.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Jim Hansen
QUESTION NUMBER (HN-22-006)

Question: In implementing the BRAC closure recommendations, can the Department of Defense ignore or avoid complying with other relevant sections of the United States Code?

Answer: In implementing the BRAC recommendations, the Department of Defense intends to comply with all applicable laws.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Jim Hansen
QUESTION NUMBER (HN-22-007)

Question: Does the plan to "privatize in-place" all of the depot maintenance workloads currently performed at Kelly and McClellan comply with the relevant sections of Title 10, U.S.C.?

Answer: The Department of Defense intends to comply with all applicable laws in transferring the workloads at Kelly and McClellan, and at all facilities identified for closure or realignment.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Jim Hansen
QUESTION NUMBER (HN-22-008)

Question: The BRAC Commission Report and the GAO specifically noted that "closure of the McClellan and San Antonio ALC's permits significantly improved utilization of the remaining depots and reduces DoD operating costs." What is your plan to move workload to the remaining depots to eliminate this excess capacity and reduce costs?

Answer: The original Department recommendation called for the downsizing of each of the Air Logistics Centers. The BRAC Commission rejected that recommendation and instead voted to close the ALCs at McClellan and San Antonio. The Department will continue to try to size the organic depot system to core. It must also be remembered that our organic workforce has already downsized. In 1987 we had a depot maintenance workforce of 156,000. According to a study completed this week, there were just under 89,000 on board as of December 31, 1995. By the end of the fiscal year it is expected that there will be approximately 78,000 government personnel performing depot-level maintenance. These reductions have been accomplished through a variety of ways – attrition, hiring freezes, incentivized early outs, and reductions in force. Each of the DoD Components has initiatives designed to consolidate and make more efficient use of maintenance assets. The Navy has the Regional Maintenance Concept, the Air Force has Lean Logistics, and the Army has Integrated Sustainment Maintenance. Each of these innovative maintenance support concepts is designed to reduce duplication.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Jim Hansen
QUESTION NUMBER (HN-22-009)

Question: DoD policy and current law clearly state that "CORE maintenance capability exists to minimize operational risks and to guarantee required readiness for these weapon systems." How could it be that workloads at closing bases like McClellan, that were over 80 percent "CORE" before BRAC, are now zero percent? What is the percentage of workload at Kelly and McClellan that is considered CORE?

Answer: The Air Force has preliminarily evaluated five prototypes and determined that there is sufficient competition and demonstrated past performance in the private sector to minimize risk. As such, the five prototypes are possible candidates for outsourcing. The balance of the workload at Kelly and McClellan will be evaluated and a determination made on source of repair.

It is important to note that not all critical or mission-essential weapon systems and equipment are maintained in organic depot maintenance facilities, but the capability to perform certain depot maintenance on designated weapon systems must be maintained organically. Simply put, core represents the minimum amount of maintenance capability that the DoD Components must maintain in organic depot facilities to ensure that contingency operations are not compromised because of lack of essential depot maintenance support.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep James V. Hansen
QUESTION NUMBER (HN-22-011)

Question: What are your plans to move those weapon systems, defined above as CORE, to a public sector DoD depot?

Answer: The Services are developing plans for the orderly transition of those workloads necessary to sustain Core capabilities currently being performed at depots slated for closure. In order to ensure no loss of readiness, this process is by necessity, a workload by workload procedure.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep James V. Hansen
QUESTION NUMBER (HN-22-012)

Question: Please provide a complete breakdown, by weapon system and workload, of what was identified as CORE maintenance at each of the five Air Force Logistics Centers during FY 1994. This analysis should also identify all weapon systems and workloads that are non-CORE but are performed at the Air Logistics Centers.

Answer: See attached. While this is not by weapon system it is how the Air Force computes core. This core assessment is pre-risk under the process used in FY94.

WR-ALC	FY 1996
ACFT/AIRFRAME	
Transport	1,227,827
Light Combat	486,827
ACFT COMPONENTS	
Dynamic Components	81,283
Aircraft Structures	470,000
Hydraulic/Pneumatic	50
Instruments	242,100
Landing Gear	1,041
Aviation Ordnance	309
Avionics/Electronics	2,647,317
Other	580,889
MISSILE COMPONENTS	
Tactical/MLRS	17,935
GRND COMM & ELECT EQUIP	
Radar	2,000
Radio Communications	1,000
Wire Communications	1,000
Navigation Aids	1,000
Electro-Optics/Night Vision	684
SOFTWARE	
Tactical Systems	674,310
Support Equipment	505,000
TOTAL	6,940,572

ALC	FY 1996
Aircraft	
cargo, tanker, bomber	1,441,092
command and control	42,636
Aircraft components	
aircraft structures	132,383
hydraulic/pneumatic	309,270
instruments	1,016,281
avionics/electronics	225
other	537,226
Engines (gas turb)	
aircraft total	2,008,456
blades and vanes	214,830
Software	
tactical systems	325,418
support equipment	298,560
Total	623,978
Special interest bearings refurbish	34,233
Special interest TMDE	30
TOTAL	6,360,540

OO-ALC	FY 1986
1C1,Transport	631264
1C3, Light Com	809376
2B,Aircraft Stru	170143
2C,Hydr/Pneu	13296
2D,Instruments	104931
2E,Landing Gear	514496
2F,Exch, Weapo	137540
2G,Exch,Av/Elct	389428
2I,Other	237842
2H APUs	27077
3A,A/C Engines	8744
4A,Strategic	714964
4B,Tactical	136181
10E,Other	109634
12A,Tactical Sys	664247
12B, S/E	221431
13A, Bearings	4818
TOTAL	4695412

SA-ALC	FY 1996
(1C1) Acft, Fixed - Transport (C-5)	832,605
(2B) Acft Comp - Acft Structure	90,060
(2C) Acft Comp - Hydraulic/Pneudraulic	7,702
(2D) Acft Comp - Instruments	2,514
(2E) Acft Comp - Landing Gear	6,503
(2F) Acft Comp - Aviation Ordnance	8
(2I) Acft Comp - Other	364,715
(3A) Engines - Acft	2,654,827
(4A) Missiles- Nuclear	50,587
(12A) S/W - Tactical	17,337
(12B) S/W - Spt Eqt	281,273
(13C) Spec Interest Item - TMDE Eqt	13,385
TOTAL	4,421,516

SM-ALC	FY96
1 Aircraft Air Frame	
1c1 Trans/Tnkr/Bomb	522,651
1c3 Light Combat	853,295
2 Aircraft Components	
2b Aircraft Structures	237,464
2c Hydraulic/Pneumatic	422,554
2d Instruments	311,666
2g Avionics/Electric	407,300
2h APU	0
2i Other	653
7 Grnd & Ship Com & Elec	
7a Rdr	379,630
7b Rdo	209,960
7c Wire	5,292
7d Electronic Warfare	3,929
7e Navigation Aids	195,571
7g Satellite Cont/Sensors	38,228
10 Ground Group	
10d Ground Generators	59,993
12 Software	
12a Tactical System	249,632
12b Support Equipment	217,561
14 Other	473
Total	4,105,740

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep James V. Hansen
QUESTION NUMBER (HN-22-017)

Question: What are your specific plans, including workload, personnel, and equipment, to improve the efficiency of the three remaining Air Logistics Centers and reduce the nearly 50% excess capacity?

Answer: The AF is in the process of identifying the workloads at the closing depots necessary to sustain CORE. These CORE workloads will be moved into the remaining depots, taking advantage of excess capacity. The AF is also pursuing dual and joint-use initiatives with the private sector to use more effectively the industrial capacity at the remaining ALCs. These initiatives will allow the DoD to share its operating costs with industry. Sharing these costs with industry will benefit the DoD by reducing operating costs, and thus ultimately benefit the taxpayers. In addition, these initiatives will allow the AF to use more effectively its industrial resources at the remaining depots. The AF will continue to explore innovative ways to reduce costs to the taxpayers and to use effectively its capacity at the three remaining depots.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep James V. Hansen
QUESTION NUMBER (HN-22-018)

Question: If DoD believes that competition is the way to achieve savings, why do they want to prohibit public sector competition? Will the other depots be allowed to freely compete for any above CORE workload? If so, how? Are the depots required to be certified prior to competition? If so, what are the plans to complete this certification, and when will it be complete? Will the depots have a competition office or any personnel assigned to develop competitive bids?

Answer: The organic depot system should be sized to meet Core capability requirements. Always competing public depots could lead to retaining or funding unnecessary capacity. Moreover, DoD cannot readily increase or decrease employment levels at the rate required for this purpose. Public competition also diverts scarce DoD resources because bid preparation is expensive and duplicative. Thus, public private competion will lead the Department to manage its depots inefficiently. We will achieve significant savings through competition in the private sector. Profit is strong motivator to improve processes, thereby providing additional savings. However, because there are situations where public-private competitions are appropriate, we have taken action to establish internal controls in the depots. Further refinements have been made to the *Cost Comparability Handbook*. Additionally, we have sent experts to the field to assist the depots, on a non-attribution basis, in the development of improved cost accounting and allocation systems and procedures. The depot's existing system, or other manual means should be available within the activities official accounting records to track costs associated with competed workloads. With respect to competition offices, we would expect Commanders to staff their depots appropriately to carry out their missions.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep James V. Hansen
QUESTION NUMBER (HN-22-019)

Question: What are DoD's plans for depot maintenance for new weapon systems? Will these new weapon systems be considered CORE? If the new weapon systems are not considered CORE, how will the depots remain competitive and economically viable in the future?

Answer: Only maintenance of those new weapon systems that is not required to sustain Core capabilities will be considered for assignment to the private sector under the new policy promulgated under DoDR 5000.2-R Not all systems specified in the JCS scenarios will be necessary to sustain Core capabilities. Even if maintenance of a weapon system is necessary to support Core requirements, the entire inventory may not be required, which could lead to some dual sourcing. When the depots are sized to Core with necessary sustaining workloads, we will have an efficient, robust, organic depot system.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Walter B. Jones
QUESTION NUMBER (HN-22-001)

The premise of the Department's policy is that "privatization is good because of competition: -- but there is no competition because the vast majority of all DoD contracts are sole sourced.

Question: **And, if** in fact the Department is looking to have more workloads "competed," **why has** DFAS failed to set up a system to certify the depots for competition?

Answer: The vast majority of contracts for services are in fact competed. In FY 1994 out of $35.5 billion, 66.5 percent was competitively awarded. In the area of maintenance, repair and rebuilding of equipment representing $5.8 billion, 59.7 percent was awarded on a competitive basis. In order to meet current requirements DFAS does not have to set up a system, rather they must certify that the existing system, or other manual means is available within the activities official accounting records to track costs associated with the workloads.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION: Rep Walter B. Jones
QUESTION NUMBER (HN-22-002)

Question: Does the Department plan on having these bids on the contracts conducted on a level playing field?

Answer: When it is appropriate to conduct a public-private competition, we will do our best to ensure comparability.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION:
QUESTION NUMBER (HN-22-003)

Question: It seems that the Department has already begun to operate as though the current depot maintenance policy has been repealed. Just last month, I learned that NAVAIR was planning on pushing through a sole source contract for the repair of CH-53 helicopters worth $8-10 million. What would be the justification for this sole source award?

Answer: The Navy's justification for the sole source award is two fold. The work is over and above the Cherry Point budgeted FY 1996 standard depot-level maintenance (SDLM) workload of 27 CH-53 aircraft. Second, Sikorsky (the aircraft builder) is the only source in the continental U.S., other than NADEP Cherry Point, that is currently outfitted with the tooling availability, expertise, and knowledge to perform the SDLMs and the only one able to deliver in the required timeframe.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION:
QUESTION NUMBER (HN-22-004)

Question: Whether the reason be that there simply wasn't enough time to comply with the code, or that the Department thought this was a good way to maintain the industrial base, the fact remains that this is a violation of 10 USC 2469. (Workloads worth $3 million or more may not be shifted to a contractor without a competition.) Does the Department plan on continuing to operate in this manner?

Answer: The proposed award to a private contractor (Sikorsky) complies with all applicable laws. Sikorsky would only perform standard depot-level maintenance (SDLM) above Cherry Point's budgeted FY 1006 workload of 27 CH-53s. The workload to which the proposed contract pertains is not currently "being performed by a depot-level activity of the Department of Defense."

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION:
QUESTION NUMBER (HN-22-010)

Question: Has the Department or the Air Force completed an analysis to identify which weapons systems are considered Core under Title 10, Sec 2464? If so please provide this analysis.

Answer: The Air Force is updating its Core calculation in accordance with the revised Core methodology for identifying workloads to support Core capability requirements. Current policy is that the Core computation be performed at a minimum of biennially. Our expected completion date is April 1997. The Air Force has identified certain workloads that may be used to sustain Core capability. These workloads are a pre-risk assessment. It should be pointed out that different workloads can be used to sustain Core and that workload other than those identified in the pre-risk assessment may be used.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION:
QUESTION NUMBER (HN-22-014)

Question: Is there a Presidential direction, or any other direction provided by administration or DoD officials, to ensure employment levels at McClellan and Kelly Air Logistics Centers? If so, what is this direction, and does it apply to any other closing or realigning DoD facility?

Answer: A July 13, 1995 press release from THE WHITE HOUSE Office of the Press Secretary provided that: "To further reduce the economic impact at McClellan and Kelly and the surrounding communities, the President directed the Secretary of Defense to space out the privatization over a five-year period. As a result, approximately 8700 jobs at McClellan and 16,000 at Kelly will be retained at the end of this period." We are aware of no direction that mandates an employment level.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION:
QUESTION NUMBER (HN-22-015)

Question: Each of the other Services, and indeed even within the Air Force, we have found that the sooner you close a base, the greater the savings. Why is this not the policy at these two Air Logistics Centers? Why could the Navy close an equally large maintenance depot like Mare Island in only two years while the Air Force requires six years to close to McClellan?

Answer: There are various factors that determine how quickly a DoD depot can be closed. They include the size of the operation to be closed, if MILCON is required at the gaining site, the commonality of workloads at the gaining site, and tenant populations. An Air Logistics Center (ALC) is different than a Navy NADEP. A NADEP only performs depot maintenance. An ALC performs both depot maintenance and material management functions, and employs 9,000 - 11,000 people, twice the number of people at a NADEP. Moving these diverse functions and increased number of people takes more time, particularly if readiness is to be maintained.

If MILCON is involved, the timelines are increased. If an accelerated process is employed, the time from budget authorization to completion of the move is a minimum of four years. If MILCON is in the FY97 program, the earliest move date would be FY00.

Another key factor is workload commonality. The Navy depot structure, prior to FY93, was significantly different from the Air Force structure. In the early 70s the Air Force implemented the Technology Repair Center (TRC) concept where only one ALC repaired a given commodity i.e. Landing gear at OO-ALC. The Navy did not have the TRC concept, so they had a duplicate set of repair capabilities at the gaining site. This significantly reduces risk and make the transition easier. This is not the case in the Air Force.

Finally, the tenant population at the two centers is over 13,000. The missions are diverse and include one of a kind laboratories, classified compounds, and normal operational unites. There are also significant environmental concerns. For these reasons it will take longer to close an ALC then to close a NADEP.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION:
QUESTION NUMBER (HN-22-016)

Question: What is the total cost to operate McClellan Air Force Base for one year? What is the annual cost to operate the Kelly Air Logistics Center? How much of this funding goes to overhead costs?

Answer: We interpret the total cost to operate McClellan and Kelly Air Force Bases, as a reference to the total base infrastructure operating support costs at those two centers. These costs are categorized as Base Operating Support (BOS) and are funded out of the Operation & Maintenance 3400 appropriation. Based on these premises, the total projected FY96 base operating support cost for McClellan Air Logistics Center is $95.3M. The total projected FY96 base operating support cost for San Antonio Air Logistics Center is $140.6M. All of these costs are overhead (100%), i.e. this is the true cost of running the base. However, it does not recognize all the dollars a base has to execute during a fiscal year. Also, it does not recognize any overhead costs that are included in a sales rate and funded by a customer of one of the business areas that does work on base.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION:
QUESTION NUMBER (HN-22-020)

Question: In response to a previous question, Secretary Perry wrote to me and stated "the Department will continue to try to size the organic depot system to CORE." If that is true, then why does your report state that the Air Force has over 25 million hours of CORE work but will retain only 17 million hours in its three organic depots? If this CORE work was consolidated to the remaining three ALCs, what percentage of their capacity would be utilized using the BRAC capacity calculation, not current workstations? What would be the effect on rates for all work currently completed at the depots?

Answer: The 25.5 million hour figure is based on a pre-risk computation. The 17 million is an estimate of the Core requirement based on a presumption of acceptable risk determination for most of the workload at McClellan and Kelly. This much reduction is unlikely in that a portion of this workload will be determined to be Core and be inappropriate to compete. We are conducting a repair base analysis and plan to have recalculated Core by April 1997. It is not possible at this time to assess precisely what percentage of the capacity of the three remaining ALCs will be utilized until we have finalized our determination of what workloads are necessary to support our Core capabilities requirements. With respect to the impact on prices, the rates will definitely go down. The actual amount would depend on the specific workloads privatized, and the net workloads moved to the remaining depots.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION:
QUESTION NUMBER (HN-22-021)

Question: Why did DoD choose to include CLS and ICS dollars in their current public private calculation but then choose not to include CLS and ICS in its projections of private workload? How much does CLS and ICS account for in each of the Services?

Answer: These are not part of the depot maintenance appropriations and are imbedded in other accounts. While ICS and CLS contain some funding for depot maintenance, the share is not identified. This precludes developing accurate projections. These funding lines also include engineering support services, spares, materiel management, and tech support. We chose to include ICS and CLS in the historical data to make them consistent with data previously provided to Congress in the report of the Defense Science Board on Depot Maintenance. ICS and CLS for each of the Services in the out years are as follows:

Projected CLS/ICS Depot Maintenance (FY96 $M)					
	FY97	FY98	FY99	FY00	FY01
Air Force	600	561	598	577	563
DON	26	26	28	31	34
Army	59	53	65	68	72
DoD Total	685	640	692	676	669

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
SUBCOMMITTEE ON READINESS
HEARING ON DOD POLICY FOR DEPOT-LEVEL MAINTENANCE
APRIL 16, 1996
MEMBER ASKING THE QUESTION:
QUESTION NUMBER (HN-22-036 & 037)

Question: And then, at the same time, maybe you can also comment on the Army Audit Agency investigation and report on contracts versus Department of the Army civilian support cost for operation DESERT STORM. I understand that the private companies, the figures were that it cost $84,000 to a high of over $197,000, or 117 percent more versus civilian workers, the civil service workers. How are we going to deal with that? And this is in reference to DESERT STORM.

Answer: It is clear that contractor costs were far higher than those for Department of Army civilians. While the higher costs for contractors is not bad in itself, it was clear from the Army Audit Agency (AAA) investigation that the Army could have done a better job of controlling costs. The Army Contracting Support Agency has been chartered to build on the lessons of the past to achieve economies in contracting during both contingency operations and peacetime.

There were some valid reasons for some contractor costs to be higher. These include paying higher costs for higher skill levels, avoiding facilitization costs when interim support is necessary until government personnel are trained and when it makes sense based on best value. Also, many contractor costs included burdens such as food, housing, laundry, medical care, and recreation not included in the Department of Army civilian costs computed by AAA.

BILL K. BREWSTER
3D DISTRICT
OKLAHOMA

COMMITTEE ON TRANSPORTATION
AND INFRASTRUCTURE

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Statement for
BILL K. BREWSTER

April 16, 1996

Subcommittee on Military Readiness
House National Security Committee
Hearing on DOD Authorization, FY-97
2118 Rayburn House Office Building

Mr. Chairman, I would like to thank you for allowing me to submit this testimony for the record.

First, let me state I have concerns with a recent report regarding the Department of Defense plan to increase privatization of depot-level maintenance. It does not seem to comply with the reporting requirements outlined in the 1996 Defense Authorization bill. Though there are many omissions, what disturbs me most is the Department is once again discussing privatization and the possible repeal of the 60:40 rule with very little consideration for the effects it may have on military readiness and costs.

Though the repeal of 60:40 would not directly affect my Congressional District, it would have an adverse effect on the State of Oklahoma, particularly Tinker Air Force Base and other bases in the state providing maintenance work. Specifically, however, I am very concerned with related statements made in a separate Department of Defense report, "Improving the Combat Edge Through Outsourcing" pertaining to potential changes in the operation of the McAlester Army Ammunition Plant (McAAP). It is my understanding the Department of Defense may attempt to repeal Section 317 of P.L. 99-661, part of the 1987 National Defense Authorization Act. I believe these two issues - the repeal of 60:40 and the repeal of P.L. 99-661 - are directly related. Both involve privatization of military facilities, which not only affects jobs, but also affects the readiness of our nation's military force. My concern is that if one law is repealed, the other one will soon follow. Therefore, I do not support the Department's efforts to repeal either provision.

McAlester Army Ammunition Plant is located in my Congressional District, the Third Congressional District of Oklahoma. McAAP is a working, capital-funded Army industrial

facility. It is the largest explosive capacity storage depot in the world. McAAP is also our nation's only explosive bomb producer of its type, and was praised for its outstanding performance during Desert Storm. For many years, McAAP has successfully served our nation's military as a government-owned/government-operated facility.

However, it is my understanding the Department of Defense, in its push for privatization, is again exploring the possibility of changing the operational status of McAAP, and the Crane, Indiana Army Ammunition Activity to government-owned/contractor-operated facilities. It is my belief the underlying reason for this attempt is to remove more than 1,000 employees from the federal payroll in an effort to meet the Vice President's Reinventing Government proposal of reducing total federal employment. I do support reducing government positions when it promotes increased efficiencies, increased productivity or save taxpayer money. However, in the case of McAAP, it appears the exact opposite would result by the contracting out of its work. In essence, the impetus for this decision is politically, not militarily motivated.

Over the past eight years, the number of Army ammunition plants has been reduced dramatically. In 1989 there were 27 active Army ammunition plants in the country, which employed 21,207 people. In contrast, in 1996 there are only 8 active army ammunition plants operating with 7,600 employees. Overall, this represents a 70% reduction in the number of active AAP's in the last few years. Of those remaining, six are contractor-operated. McAAP and Crane are the only two still owned and operated by the government, and employ less than 1,600 people combined. Although a move of this sort would reduce federal employment, it would not save any money, and certainly is not in the best interest of the nation in regards to readiness.

Regarding increased cost to the government, there is already proof in the case of the contracting out of the facility in Hawthorne, Nevada. This effort cost the government more money, had a serious negative impact on national readiness, as well as negative impacts on the local community's economy. In 1979, the Army wanted to study contracting out work at the Army's three former Navy depots, of which McAAP is one. The Army chose to contract out the work at its former Navy facility in Hawthorne, Nevada because its workload was smaller than that of either McAAP or the Crane, Indiana Army Ammunition Activity. The contract was awarded to Day and Zimmerman Corporation (D&Z) in 1980. According to a GAO audit conducted after the first year of contractor operations, the cost to the government was $3.7 million more than the original D&Z bid price. Other problems cited were an inexperienced workforce, and inadequate work quality. According to GAO, it took four years for Hawthorne to get its performance level up to Army standards. Also, while it took four years for Hawthorne to get its work up to par, the Hawthorne operation was still more costly. D&Z's dismal failure to execute their workload over the next several years resulted in the loss of all the plant's former Load, Assemble and Pack mission, and contributed to reducing Hawthorne to its current status as a Tier II Depot. Even today, their cost to perform continues to be higher than either Crane or McAlester.

In addition, based on lowest cost and best value, McAAP provides explosive loading and integration support to three major defense contractors in the ammunition production arena -

Texas Instruments, McDonnell Douglas, and Lockheed Martin - via third party contract agreements. They currently provide support to these companies on major defense contracts. This is just one example of a government entity providing services cheaper, better and faster than their contractor operated AAP counterparts. It is this type of forward thinking which makes McAlester a leader in the ammunition field.

The readiness of our nation's military is also a big concern. McAAP has played, and continues to play, a prime role in the readiness of our nation's defenses by providing support for all branches of the service. A change in McAAP's operational status could have dire effects on its abilities to meet readiness requirements. Therefore, the push to privatize McAAP and Crane, in my opinion, is not founded on better judgement. It seems the current administration is trying to privatize most of our fighting forces support functions. In doing so, it is important to note one thing. Civilian employees of the Department of Defense take an oath when they begin their career to do their utmost to provide support to our soldiers in the field. It is their number one priority every day that they go to work for their country. The number one priority of a private contractor is their corporation's profits. Either your first priority is to the soldier, or to your company's bottom line. As we consider such a major departure from the way this nation has supported its soldiers in the past, we cannot lose sight of the fact that the defense of our nation has to be the number one priority.

This nation was built on a system of checks and balances, and P.L. 99-661 keeps a system of checks and balances in the ammunition supply arena, which is vital to its continued success. McAlester and Crane, the core AAP's, are now used to ensure readiness and control contractor costs at the other facilities. These government-operated facilities help keep contractor costs low. If all AAP's are contractor-operated, the costs to the government would skyrocket, because a corporation is only concerned with making a profit. In the end, the government will spend more on the AAP's than it is now. Also, if all ammunition facilities are contracted, it would be very difficult to provide the needed services for our military forces in the case of an emergency situation, such as Desert Storm. There would be hurdles of contract negotiations to go through before work could begin. In addition, there is the possibility of labor disputes between employees and the contractor. This could slow down production, and even stop it all together - neither of which are ideal situations when trying to ensure a nation is ready and able to defend itself.

Dwight D. Eisenhower was once quoted as saying, "The retired industrial military complex will be the ruination of this great nation." His reference was to the thousands of retired military officers who go directly to work for contractors surrounding the Pentagon and Capitol Hill in an effort to provide corporate profit to their employers. Their insider information and networking capabilities are used to gain a competitive advantage on not just their competition, but also with the Department of Defense. The 60:40 rule for the depots, P.L. 99-661 for the AAP's, and most of the other prohibitive legislation was passed to gain some control of this "out of control" situation. Repeal of these pieces of legislation would be a giant step backward in the stewardship we have to our country.

In conclusion, I believe the efforts to repeal 60:40 and P.L. 99-661, in order to privatize many aspects of our nation's defense, is putting our country in jeopardy. Not only will readiness be affected, but there will be increased costs to the government. While we are making such a tremendous effort to balance the nation's budget, we certainly do not need unexpected costs. We must keep the contractor-operated AAP facilities in check, by providing an efficient example in McAlester and Crane. I am opposed to the Department's efforts to dismantle a policy which has been proven to work, and would urge the Committee to reject the Administration's proposals to repeal 60:40 and P.L. 99-661 during the mark-up of the FY-97 Defense Authorization bill.

As always, I stand ready to work with the Committee, or answer any questions, in this regard. Thank you, Mr. Chairman, for the opportunity to submit his testimony to the Committee.

THE WRITTEN STATEMENT

of

James L. Owsley
for

THE APRIL 1996 ARMED SERVICES HEARINGS
ON
PRIVITIZATION OF DEPOT MAINTENACE FACILITIES

My name is James L. Owsley and I was the Cross Service Team Leader for the 1995 Base Realignment and Closure Commission(BRAC) My team had the responsibility to perform analysis for potential realignments amd closures in maintenance depots, labratories and test and evaluation facilities. Based on the results of the analysis we made recommendations to the Chairman and the Commissioners. During the final deliberations the Commission voted to Realign/Close McClellan Air Force Base in California and Kelly Air Force Base in Texas.

The data used by the BRAC Commission to reach this decision was provided by the U,S.Airforce and the DoD Depot Joint Service Working Group. The information provided showed that with only operating a single shift that the Air Force Depots were less than 50% utilized.

The Commission was also provided ratings of the activities by the USAF Base Closure Executive Group. The major factor to be used in their ratings, dictated by the DoD to all services, was MILITARY VALUE as it applied to readiness. The ratings ranged from a high of 33 points for Hill Air Force Base to a low of 11 points at McClellan Air Force Base.

In the Final Deliberations data was presented that showed that by closing Kelly and McClellan Air Force Bases that the USAF would save $342,000,000 yearly without considering added savings that would be realized by efficiencies of combining the work-loads at the remaining three depots (Hill, Robins,Tinker). Chart "A" indicates the affect of one commodity(Engines) in yearly savings for rates only of $83,115,900 by combining the workload at Tinker AFB. The BRAC Commission, in its final report to the President, strongly recommended the transfer of the engine work to the Tinker AFB.

The analysis performed on engines showed that the same logic should apply to the other activities recommended for transfer to the Hill and Robins Air Force Bases. Chart "B" indicates where this effort would have been transferred based on the data pro-vided to the Commission by the USAF Base Closure Executive Group and the DoD Depot Joint Services Working Group.

There are three important facts that were made about Chart "B" during the final BRAC deliberations.

1) All CORE workload is within the capacity of the three remaining ALC's.

2) Break even by Closing McClellan and Kelly would occur within **ONE YEAR!**

3) Surge capacity still remained since all work was calculated on a single shift basis.

Chart "C", presented during the final deliberations, show that current and projected workload can be performed by using only the three highest rated depots on a single shift basis.

CONCLUSION

Based on information and data provided by the **USAF** and the DoD the Commission's Final Report stated "The Kelly AFB and the McClellen AFB closures will permit improved utilization of the remaining ALC's and substantially reduce DoD operating costs.

"Privitization in Place" was not part of the BRAC 1995 law. In two instances, Louville and Indianapolis, the Commission voted for closures with a request that the Navy reveiw the proposals that the two cities had put forward.

The intent of the Commission was also reflected in the direction that said "directs the Defense Depot Maintenance Council to determine and direct the appropriate distribution of work to other DoD depots or to the private sector." This was done to take the decisions away from the individuals services and to allow movement of core work to the DoD sites recommended by the DoD Joint Services Working Group in their 1995 report to the BRAC process and to allow **non-core** work to be privatized. Such direction if followed have greatly enhanced savings, moved significant work to the private sector and insured readiness.

Respectfully,

J.L. Owsley

COST ADVANTAGE OF CONSOLIDATING AF ENGINE MAINTENANCE AT TINKER AFB

ANNUAL SAVINGS SHOWN IN BRAC 1995 FINAL DELIBERATIONS BY CONSOLIDATION AT EITHER SAN ANTONIO OR OKLAHOMA CITY	$73,095,900
LOWER RATE AT OKLAHOMA CITY VERSUS SAN ANTONIO FROM THE USAF DEPOT MAINTENANCE INDICATOR REPORT	$10,020,000
TOTAL SAVINGS* IF BRAC RECOMMENDATION WAS FOLLOWED	$83,115,900

*DOES NOT INCLUDE ADDITIONAL SAVINGS THAT WILL COME FROM LEARNING EFFICIENCIES IN A FULLY LOADED ENGINE SHOP AT TINKER

Chart "A"

CONSOLIDATION OF CORE WORKLOAD WITHIN 3 AIR FORCE DEPOTS

FY 1999, SINGLE SHIFT

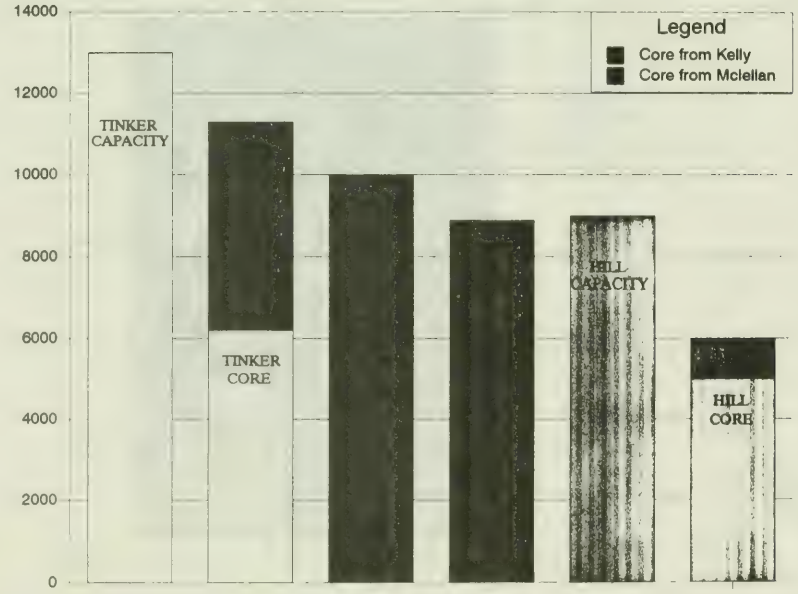


Chart "B"

AIR FORCE CERTIFIED MAXIMUM POTENTIAL CAPACITY (SINGLE SHIFT)

REPORTED TO THE DOD DEPOT CROSS-SERVICE GROUP (MILLION HOURS)

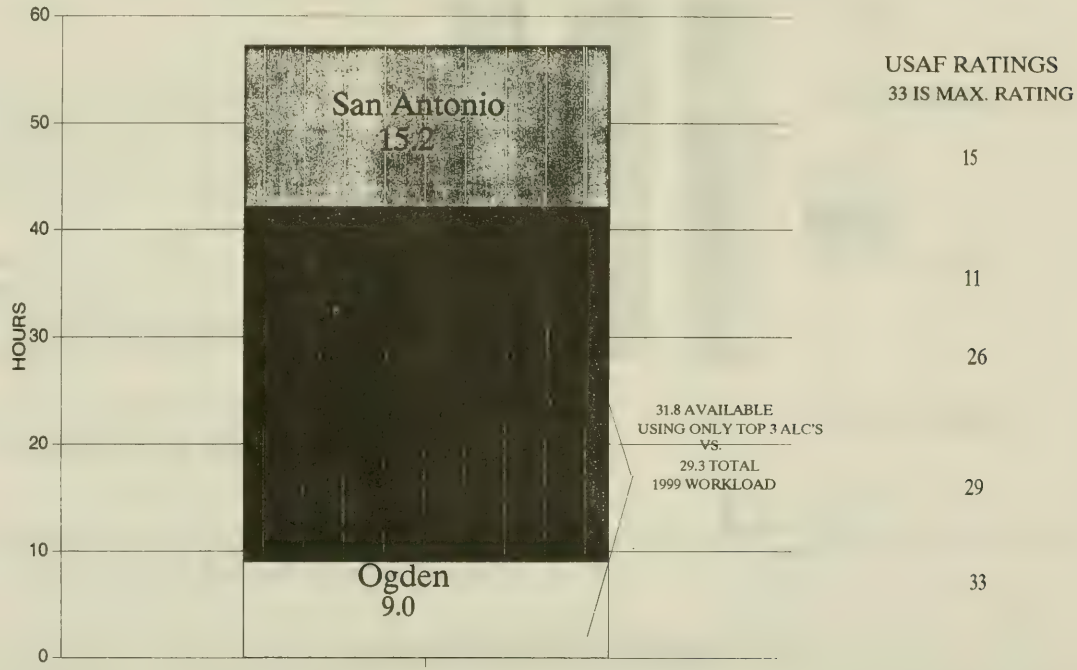


Chart "C"

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

June E. O'Neill
Director

April 15, 1996

Honorable James B. Hansen
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman:

Thank you for your interest in the CBO study *Public and Private Roles in Maintaining Military Equipment at the Depot Level*. Attached are CBO's answers to your questions of March 11. Although we have tried to be as clear as possible, the issue of public and private roles is difficult and complex. Please keep in mind that CBO's analysis focused primarily on the long-run costs and benefits of different mixes of public and private production, rather than on privatization in the sense of DoD's ability (or inability) to convert specific public depots to private production.

Please feel free to contact the analyst who worked on this project, Debbie Clay-Mendez, at (202) 226-2900 if you feel that a meeting with her would be useful.

Sincerely,

June E. O'Neill

Enclosure

ANSWERS BY CBO
TO QUESTIONS POSED BY
CONGRESSMAN JAMES HANSEN

1. How did you come to the figure of $1 billion in savings?

The figure of $1 billion indicates the magnitude of annual savings that DoD might achieve in the long run by shifting to the private sector those maintenance tasks now performed in DoD depots that could be handled in the private sector on a competitive basis. In order to estimate those savings, CBO reviewed DoD's workloads for repairing aircraft, aircraft engines, and ships in an effort to identify tasks for which competition already existed in the private sector or for which the size and nature of the public workload indicated that such competition could be developed. CBO found that tasks falling into those categories accounted for over 60 percent of the aircraft, airframe, and ship maintenance now performed in DoD depots.

Much of that 60 percent reflects tasks--such as maintenance on engines and airframes for cargo planes and maintenance of surface ships--that are already being performed to a significant extent in the private sector on a competitive basis. Those tasks account for between 30 percent and 40 percent of the airframe, engine, and ship maintenance performed in public depots. The remainder of the 60 percent are tasks that have traditionally been done within public depots but for which competition might be developed in the private sector. They include maintenance on fighter airframes and aircraft engines for which DoD has large inventories and workloads (for example, the F-15, F-16, and A-10). Although those aircraft have traditionally been maintained in public depots, the opportunity to compete for contracts that offer large, steady workloads would probably generate substantial interest among independent repair firms. CBO did not include tasks that could be allocated to the private sector only on a sole-source basis, such as inactivating nuclear ships or maintaining specialized aircraft or engines with small workloads.

To get the $1 billion figure, CBO took 0.2 (the savings rate discussed in the answer to question 2) times 60 percent of DoD's public depot workload of approximately $9 billion. One limitation of this approach is that the tasks that CBO reviewed--aircraft, aircraft engine, and ship maintenance--might not be representative of DoD's depot maintenance as a whole. Although the actual level of savings that would be achieved is uncertain, CBO believes that the $1 billion figure provides a reasonable assessment of potential long-run annual savings from shifting workload to the private sector. The figure is intended to give readers some idea of the order of magnitude of potential savings. It should not be interpreted as an estimate of the short-run savings from privatizing existing DoD facilities.

2a. You cited studies including airlines, banking, bus services, and refuse collection to suggest that savings of 20-40 percent could be achieved. Were these privatizations conducted by the U.S. federal government? If not, where did these cases come from?

Much of the evidence about the cost advantage of private over public production comes from overseas--primarily Europe and Australia--or from local governments within the United States. In part, this reflects the greater experience that other countries have had with nationalized industries.

One of the studies cited by CBO, *Comparing the Efficiency of Private and Public Production: The Evidence from Five Countries*, by Thomas Borcherding and others, is a literature review that assesses the evidence available for five countries: Canada, West Germany, Switzerland, Australia, and the United States. As its title indicates, the study focused on the relative efficiency of public and private production, not on the ability of federal governments to privatize specific public facilities by converting them to private control. Most of the evidence relating to industries in which equipment maintenance is an issue (railroads, airlines, utilities) came from outside the United States. Of the five studies the authors reviewed that compared the efficiency of U.S. federal production with private production, only one was for an industrial activity (a comparison between public and private costs for overhauls of ocean tankers and oilers); the remainder dealt with services such as hospitals, debt collection, and weather forecasting.

Other studies cited by CBO suggest that competition among firms in the private sector is one factor that helps to explain why private production is frequently less costly than public production. One of those studies, *Issues Concerning Public and Private Provision of Depot Maintenance*, by John D. Keenan and others, finds that the Navy saved 20 percent to 30 percent when it allocated depot-level maintenance tasks on the basis of competition. (Although that evidence suggests that competition may reduce costs regardless of whether the competitors are private or public, DoD has found it difficult in practice to sustain fair competition between public and private firms.)

2b. Does the U.S. federal government have any experience in privatizing any industry as complex as a DoD depot maintenance facility?

The federal government has very limited experience in directly privatizing government facilities. The conversion of Conrail from a government corporation to private control is one of the few examples. The ongoing effort to convert the U.S. Uranium Enrichment Corporation to private ownership is another.

The federal government has somewhat greater experience with shifts in industrial work from the public to the private sector. Prior to World War II, for example, military arsenals owned and operated by the government were responsible for producing a significant share of weapons. The shift in weapons production from federal to private facilities that took place during and after the war might be comparable to the potential shift in depot maintenance responsibilities that CBO's study discussed. The federal government also has experience with different mixes of public and private depot maintenance. During the late 1950s and early 1960s, private contractors accounted for over half of the maintenance performed for the Air Materiel Command. The federal government's ability to shift work between the public and private sectors, however, does not mean that it has the ability to successfully convert specific facilities from public to private ownership in an environment in which there is significant excess capacity.

3. It appears that many of these cases are more consistent with base operating support and services than core depot-level maintenance. Is there a difference in the level of competition in the marketplace between the service industry and military weapons support industry? Are long term, sole source maintenance agreements likely to produce any savings compared to an efficient public depot system?

Competition for base operating support contracts has the potential to involve many firms; competition for weapons production or support contracts typically involves only a few firms (sometimes just two or three). Nonetheless, in the defense industry, where DOD is virtually the sole buyer, there is evidence that effective competition can be provided by only a few suppliers.

It is questionable whether long-term, sole-source maintenance agreements will save money compared with the cost of maintenance in a public depot. That is a concern even among analysts who do not assume that public depots are efficient. Because of that concern, CBO focused on those depot maintenance tasks for which competition would be possible over the life of the weapon systems.

A more difficult question, which CBO did not attempt to answer, is whether a one-time competition for a production contract that includes a life-cycle maintenance agreement might provide a cost-effective alternative to public maintenance. In many cases, DoD faces a choice between a less-than-perfectly-competitive private sector and a public depot system that, because of the multiple social and political objectives it must serve, is unlikely to be efficient in the sense of producing a particular quality and level of output at low cost.

4. There is been much discussion regarding the concept of "privatization in-place" of closing DoD depots. Do you believe "privatization in-place" of identified excess capacity is likely to produce any savings? In your opinion, will DoD achieve any savings through "privatization in-place" if its retained depot system continues to operate below 50 percent of capacity?

CBO's estimate of the long-run savings from shifting workload to the private sector implicitly assumes that the public sector will reduce its employment levels and capacity as a result of the shift. Moving workload and facilities to the private sector (as envisioned under DoD's plans to privatize in-place) may not lead to any savings if the final result is greater excess capacity within the remaining DoD depots.



CITY OF SAN ANTONIO
WILLIAM E. THORNTON
MAYOR

April 11, 1996

The Honorable Herbert H. Bateman
Chairman, Subcommittee on Military Readiness
Committee on National Security
2350 Rayburn House Office Building
Washington, D. C. 20515-4601

Dear Mr. Chairman:

The City of San Antonio and our community-wide committee for privatization urges your leadership and support for the repeal of 60-40. San Antonio's enlightened self-interest in the repeal of 60-40 coincides with our country's national security interests. With defense spending declining approximately 35 percent since FY'85, and with procurement spending declining 70 percent during the same period, repeal of 60-40 would allow savings on defense infrastructure. During this same period, defense infrastructure declined only 15 percent.

Chairman Spence, Chairman Thurmond and many members of the National Security and Armed Services Committees have expressed their concerns regarding modernization. Last month General Shalikashvili testified before Congress that the nation should be spending $60 billion a year on weapons. Secretary of Defense Perry has testified that the Service Secretaries will be allowed to apply the savings they realize from privatization for weapon procurement and modernization.

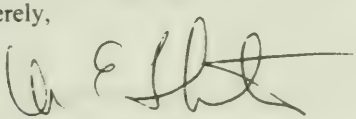
Secretary Perry recently testified that, "We can only have success in privatization, and we can only achieve the savings in privatization if we are relieved of that 60-40, and we will pursue this quite vigorously with the Congress." General Shalikashvili, Chairman of the Joint Chiefs, testified on March 6, 1996, that, "...I also believe that we must get on with privatization, outsourcing...we need your support to make the hard choices and the changes to make these initiatives work. I particularly ask for your support where changes in law are required."

Dr. Sheila Widnall, Secretary of the Air Force, testified at an Air Force Posture Hearing March 14, 1996. The Secretary testified, "...I have recently visited Newark, Kelly, and McClellan Air Force Bases to check on our progress...a number of barriers remain. For instance, the law limiting private sector depot efforts to 40 percent of our depot funds must be changed to allow flexibility and ensure success in this area...the privatization options offer other benefits as well. It is good for readiness, ensuring uninterrupted access to unique facilities and a skilled workforce for repair of critical items. It increases flexibility, provides best value, and frees up funds for modernization, and it is good for communities, since it allows the use of unique facilities by the private sector for both government and commercial work...."

The private sector, local units of government and state governments have aggressively pursued outsourcing while ensuring that their core customer functions remain intact. The logic is simple--the savings can be utilized to expand priority services.

Thank you for your consideration of the City of San Antonio's position in support of the repeal of 60-40. We believe that it is appropriate for the Congress to support the Department of Defense on this most critical issue.

Sincerely,



WILLIAM E. THORNTON
MAYOR

WET:jrb

cc: Peter M. Steffes
2120 Rayburn House Office Building
Washington, D. C. 20515-6035

FMA

FEDERAL MANAGERS ASSOCIATION

April 16, 1996

The Honorable Herbert H. Bateman
Chairman
House National Security
Subcommittee on Readiness
2120 Rayburn House Office Building
Washington, DC 20515
Attention: Peter M. Steffes

The Honorable Norman Sisisky
Ranking Minority Member
House National Security
Subcommittee on Readiness
2371 Rayburn Office Building
Washington, DC 20515
Attention: Perry Floyd

Dear Congressman Bateman and Congressman Sisisky:

On behalf of the 200,000 managers and supervisors in the Federal government whose interests are represented by the Federal Managers Association, I am writing to express our opposition to repeal of the statutory requirement (10 U.S.C. 2466) that 60-percent of military hardware upgrade and repair work be performed at military service depots. As you proceed to hold hearings on this issue and mark-up the 1997 DoD Authorization, FMA urges you to not repeal the 60/40 rule. Preservation of the 60/40 rule is one of the policy positions discussed in FMA's issue brief *Preserving a Strong Defense.* I am attaching this brief for your review.

A preponderance of managers and supervisors at all of the Air Force Logistics Centers, Naval Shipyards, Naval Aviation Depots, Marine Corps Bases/Logistics Centers, as well as numerous Army Forts and Depots and other DoD installations worldwide, are FMA members. We have firsthand experience with insuring that limited defense maintenance dollars are used in the most cost-effective manner possible. In our professional opinion, more contracting-out caused by dilution of the 60/40 rule will not improve cost-effectiveness and will put national security at risk.

FMA has reviewed the recently issued DoD depot maintenance policy reports required by Section 311 of the 1996 DoD Authorization (P.L. 104-406) and we are opposed to replacing the 60/40 rule with DoD's recommended CORE quantification methodology. We disagree with the practical application of this methodology because it fails to adequately take into consideration:

1. The need to maintain a strike-free, ready workforce;
2. Contractor unreliability for workloads, parts or personnel to sustain CORE capability in times of crises;
3. The fact that privatization could cost more. Privatizing Newark AFB is actually projected to cost taxpayers $600 million more for contractors to perform the same work formerly done by Government personnel;
4. The fact that DoD has ignored cost-savings to be gained from interservice competition and public-private competition for workloads; and,
5. The inability to monitor and control contractor costs.

1641 Prince Street • Alexandria, VA 22314 • Phone: (703) 683-8700 • FAX: (703) 683-8707

In its recent report entitled *Depot-Level Maintenance and Repair Workload*, DoD states:

> *It is also recognized that the detailed computation of CORE in peacetime will not perfectly anticipate contingency requirements if and when wartime operations commence. The inability to be precise in predicting exact wartime needs underscores the importance of our organic depot maintenance structure, which employs artisans in many classes of repair requirements who can be redirected towards the actual end items needed to support any arising contingency. In the aggregate it is anticipated that the pluses and minuses will balance.*

The 60/40 requirement was prudently established by Congress to retain a CORE industrial infrastructure and a skilled workforce capable of assuring absolute readiness, a strike-free workforce, immediate response capability and surge capacity in the event of war or national emergency. Eliminating this requirement will embark this nation upon a precipitous course toward permanently eliminating valuable and irreplaceable military assets. Congress must not let this happen. We urge you to reject DoD's recommended CORE quantification methodology and retain the 60/40 rule.

Thank you for your attention to our concerns and with kindest regards, I am

Sincerely yours,

Bruce L. Moyer

Bruce L. Moyer
Executive Director

encl.
cc: Members of the House National Security Committee

Issue Brief

PRESERVING A STRONG DEFENSE

Halfway through the first decade after the end of the Cold War, regional instability and conflict have increased demands on U.S. troops. The U.S. faces many potential threats to its national security. FMA believes our Nation's security interests and our responsibilities require that the United States preserve a strong defense, capable of fighting and winning two nearly simultaneous major regional conflicts. The United States therefore needs to exercise the utmost caution as it downsizes its military and defense civilian workforce and draws down to a smaller, more modernized force structure.

FMA RECOMMENDATIONS

- **Congress should retain current law (10 U.S.C. 2466) requiring that 60-percent of military hardware upgrade and repair workload be performed at military service depots until DoD has developed a comprehensive policy that assures the retention of surge capacity, strike-free workforce, skill levels and cost-efficiency.**

- **Congress should amend current law (10 U.S.C. 2553) to expand the authority of all defense industrial and engineering facilities to engage in the production of defense and non-defense products and services. In addition, defense depots and other industrially-funded activities should be permitted to keep the "profits" they generate for modernization and venture capital purposes.**

- **Congress should oppose any further decrease in defense spending that increases the already serious short-fall in maintenance and operational readiness capabilities.**

- **Congress should remove human resource management barriers to privatization-in-place by approving legislation such as H.R. 2978 and H.R. 2222.**

BALANCING PUBLIC-PRIVATE DEFENSE INDUSTRIAL WORKLOAD

America should not place itself in the situation now faced by the UK. British defense officials, concerned about the effects of cutbacks and wholesale privatization of government-owned dockyards, are planning a major Naval exercise for this November to determine whether the UK still possesses the industrial capacity required to get a large number of ships to sea on short notice. A senior defense official was quoted as saying, "The basic feeling is that the industrial base has been eroded to such an extent that the people needed to get the fleet to sea simply do not exist in the required numbers." (*Defense News* February 15-21, 1996)

The Administration's policy to deliberately shift more defense industrial maintenance work to private contractors poses serious consequences. Current law (10 U.S.C. 2466) requires that 60 percent of overhaul and repair work on military hardware be performed at public defense depots. This requirement was prudently established by Congress to retain a "core" industrial infrastructure and a skilled workforce capable of assuring absolute readiness, a strike free workforce, and surge capacity in the event of war or national emergency. Under this approach, the military services may contract with private industry to perform up to 40 percent of the remaining upgrade and repair work. However, the Administration favors the elimination of the 40 percent workload ceiling in order to provide assistance to the sagging defense industry.

Federal Managers Association • 1641 Prince Street • Alexandria, VA 22314 • Phone (703) 683-8700 • Fax (703) 683-8707

Under section 311 of the 1996 Defense Authorization (P.L. 104-406) the Department of Defense is required to recommend a policy to Congress by March 31, 1996 for distributing depot maintenance workload between the public and private sector. DoD currently does not have a comprehensive policy regarding the performance of depot-level maintenance and repair of military equipment. It is essential to the national security of the United States that DoD maintain an organic capability within the department, including skilled personnel, technical competencies, equipment, and facilities, to perform depot-level maintenance and repair of military equipment in order to ensure that the Armed Forces of the United States are able to meet training, operational, mobilization, and emergency requirements without impediment.

The House and Senate Readiness Subcommittees will review the new DoD policy in April. **Congress should retain current law requiring that 60-percent of military hardware upgrade and repair workload be performed at military service depots until DoD has developed a comprehensive policy that assures the retention of surge capacity, strike-free workforce, skill levels and cost-efficiency. Eliminating this requirement before implementing an appropriate workload distribution policy will lead to higher defense costs, fail to promote long-term competitiveness, and most important, place national security in jeopardy.**

FMA supports continuation of public-private workload competition. Defense industrial and engineering facilities also should be permitted to engage in the production of defense and nondefense products and services. This will also enhance the cost-efficient preservation of "surge" capability. In addition, defense depots and other industrially-funded activities should be permitted to keep the "profits" they generate for modernization and venture capital purposes.

DEFENSE OPERATIONS AND MAINTENANCE

What America spends on defense must conform to valid military requirements, not predetermined budget reductions or economic priorities. This is particularly true for defense maintenance and operations policy, especially as it applies to the industrial network of approximately thirty military service depots that upgrade and repair ships, aircraft and armaments. These depots provide expert and cost-effective service assuring premium defense readiness. Their record of achievement during Desert Storm was unparalleled. Yet growing numbers of depots are being closed, due more to defense budget reductions than mission requirements and needs. Readiness should not become the bill-payer for weapons procurement. **Congress should oppose any further decrease in defense spending that increases the already serious short-fall in maintenance and operational readiness capabilities.**

RETIREMENT PORTABILITY REQUIRED FOR PRIVATIZATION-IN-PLACE

Releasing the "golden handcuffs" of the Civil Service Retirement System is critical to retaining the skilled workforce necessary to insure the success of privatization-in-place of depot facilities such as the San Antonio and Sacramento Air Force Logistics Centers and the Louisville Naval Ordinance Station (see *Competitive Civil Service Pay and Benefits*). The CSRS retirement benefit is not portable and discourages workers from leaving government to work for contractors who will be taking over operation of facilities that are privatizing-in-place. Congressmen, Moran (D-VA) and Ward (D-KY), have introduced legislation, H.R. 2978 and H.R. 2222, to increase the portability of CSRS benefits. **Congress should remove human resource management barriers to privatization-in-place by approving legislation such as H.R. 2978 and H.R. 2222**

For more information on defense, please contact FMA Legislative Director Mark Gable at (703) 683-8706.
3/19/96

Lockheed Martin Corporation
1725 Jefferson Davis Highway
Crystal Square-2, Suite 300 Arlington, VA 22202-4127
Telephone 703-413-5613 Facsimile 703-413-5617

LOCKHEED MARTIN

Michael C. Mitchell
Director
Government Business Relations

April 15, 1996

Honorable Herbert H. Bateman
Chairman
Military Readiness Subcommittee
Room 2120 RHOB
Unites States House of Representatives
Washington, D.C. 20515

Dear Congressman Bateman:

Enclosed please find a copy of the Industry Depot Coalition hearing statement on defense outsourcing and depot maintenance. I respectfully request that a copy of this statement be included in the record for the public hearing on depot maintenance policy that you have scheduled before the Military Readiness Subcommittee on Tuesday, April 15.

On behalf of the ten associations that comprise the Industry Depot Coalition, I want to thank you for the leadership you have shown on defense readiness issues, including these important depot maintenance and outsourcing matters. We look forward to the impending legislative action before the Subcommittee, and thank you in advance for including our statement in the hearing record.

Sincerely,

Michael C. Mitchell

Michael C. Mitchell
Chairman
Industry Depot Coalition

AEROSPACE INDUSTRIES ASSOCIATION
AMERICAN DEFENSE PREPAREDNESS ASSOCIATION
AMERICAN ELECTRONICS ASSOCIATION
AMERICAN SHIPBUILDING ASSOCIATION
CONTRACT SERVICES ASSOCIATION OF AMERICA
ELECTRONIC INDUSTRIES ASSOCIATION
NATIONAL SECURITY INDUSTRIAL ASSOCIATION
PROFESSIONAL SERVICES COUNCIL
SHIPBUILDERS COUNCIL OF AMERICA
U.S. CHAMBER OF COMMERCE

Contact: Alexis Allen, AIA, (202) 371-8544
Mark Rosenker, EIA, (703) 907-7790

INDUSTRY PREPARED TO TAKE ON DEPOT MAINTENANCE

WASHINGTON, April 15 -- The U.S. aerospace and defense industry supports the Department of Defense's (DoD) proposed approach to managing depot maintenance and strongly urges repealing the legislative barriers that are preventing DoD from outsourcing additional work, according to the Depot Industry Coalition statement (attached) submitted to the House and Senate subcommittees holding hearings this week.

The industry already maintains, more efficiently than the current government system, many mission-essential military systems such as the F-117 stealth fighter, engines for the B-2 and U-2 aircraft, Aegis cruisers and destroyers, and the Army's latest battlefield telephone system. The Industry Depot Coalition believes that the design, engineering, and manufacturing expertise associated with these and other systems subject to depot maintenance reside in industry.

The Depot Industry Coalition believes that the 60-40 rule and mandate for public-private competition wastes taxpayer money and prevents the future modernization of weapons systems from ever occurring. The preferred way of saving money and increasing efficiency is to permit DoD to have complete freedom to use private-sector resources.

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JOINT INDUSTRY STATEMENT ON DEFENSE OUTSOURCING AND DEPOT MAINTENANCE

Aerospace Industries Association of America
American Defense Preparedness Association
American Electronics Association
American Shipbuilding Association
Contract Services Association of America
Electronic Industries Association
National Security Industrial Association
Professional Services Council
Shipbuilders Council of America
U.S. Chamber of Commerce

April 15, 1996

A JOINT STATEMENT

The purpose of this statement is to express the shared views of ten major industry associations concerning Defense Department plans to manage depot maintenance. Depot maintenance involves the most complex repairs and overhauls of major military systems and components -- maintenance so demanding that it requires specially-equipped depots. The Defense Department's proposed management approach would retain robust depot maintenance capabilities in the government while encouraging the outsourcing of more maintenance to the private sector.

Industry supports this approach because it believes the modernization goals of the armed forces cannot be met unless a growing portion of military support functions are outsourced to the most efficient providers. Depot maintenance is a suitable function for further outsourcing since competing providers with demonstrated records for reliability are readily available in the marketplace. Furthermore, almost all of the design, engineering and manufacturing expertise associated with systems subject to depot maintenance resides in the private sector.

This statement was prepared on April 15 for submission to congressional committees holding hearings on April 16 and 17. The fact that it was completed on the same day that serves as the annual deadline for federal tax filings is a timely reminder that there are two groups of citizens whose concerns should be paramount in deliberations on defense policy: the warfighters and the taxpayers. Industry believes that the best answer to most defense policy questions is that which gives the warfighters what they say they need at the least cost to the taxpayers.

The Decline in Defense Resources

The end of the Cold War has been accompanied by a massive reduction in defense spending. In the six years since the collapse of the Soviet Union began in 1990, the real (after-inflation) value of the defense budget has declined 28%. Under current plans, the decline will continue through the end of the century. Reduced defense spending is a reasonable

response to a diminished threat, but since 1990 the military services have purchased readiness at the price of force structure and weapons modernization. During the past six years, operations and maintenance expenditures have declined only 13%, while force structure has fallen over 30% and weapons procurement has plummeted nearly 60%. Research and development expenditures have fallen by 21%, a greater decline than was originally planned. If this pattern of spending persists, U.S. weapons inventories early in the next century will be much smaller and much older than they are today.

The Joint Chiefs of Staff have called for a major increase in weapons modernization, and that goal is supported by both the Clinton Administration and the Republican leadership in Congress. But with the current decline in overall defense spending projected to continue, it is clear modernization goals can be achieved only by taking money from other parts of the defense budget. The preferred way of doing this is to save money by increasing the efficiency with which military functions, particularly support functions, are performed.

According to the Roles and Missions Commission, about half of the defense budget -- $125 billion annually -- is spent on support functions such as maintenance, supply, healthcare and data processing. Unlike the direct warfighting functions that make up the other half of the defense budget, most support functions do not fall within the core competencies of the military. Years of experience have demonstrated that market-driven outside organizations could perform such functions more efficiently. Nonetheless, the Defense Science Board estimates that three-quarters of the personnel performing military support functions are federal employees. The military services believe that if more of the work performed by such personnel were outsourced, the resulting savings could pay for much of the needed increases in modernization. This assessment is supported by the Defense Science Board, which projects savings of up to 30% on outsourced functions.

Why Maintenance Matters

Competent, reliable maintenance of modern weapon systems is essential to their military effectiveness. Much of this maintenance occurs in an operational setting, and thus should usually be performed by military personnel. But depot maintenance occurs in specialized industrial facilities far from likely areas of wartime military operation, and most such facilities are plagued by overcapacity that makes them inefficient. Because these facilities do not develop or produce weapons, they often lack technical depth to the degree available in the private sector. In addition, many defense managers believe that the absence of market-driven performance incentives in depots makes them markedly less efficient than private enterprise. Overcapacity, lack of technical depth and poor business practices help explain why the Pentagon's annual spending on depot maintenance approaches $14 billion -- about as much as the entire Department of Justice budget.

Because maintenance is essential to peacetime readiness and wartime sustainment, the military services have traditionally preferred to possess robust organic (in-house) depot maintenance capabilities. Industry understands and accepts this judgment by the nation's military leaders. However, industry also agrees with the nation's military leaders that not all depot maintenance currently performed at organic depots needs to be performed at government facilities by government employees. Industry, like the nation's military leaders, believes the wide array of management options, including the panoply of outsourcing strategies, should be considered and utilized, as appropriate. Under the modified management approach being proposed by the Defense Department, roughly half of all depot maintenance would be outsourced by the turn of the century (compared with about 30% today), resulting in approximately $2B per year in additional depot work in the private sector.

This balance is to be achieved through the application of a proposed approach to "core" requirements, under which an amount of organic depot maintenance capability would be preserved to assure (1) understanding of essential maintenance processes, (2) surge capability in wartime, and (3) price discipline among sole-source providers in the private sector. Workloads not needed to meet these requirements, including some mission-

essential workloads, would be outsourced to the most cost-effective private-sector provider. Industry believes this is a clear, coherent management concept that reflects the complexity of modern weapon systems while satisfying the imperative to save money for other purposes. Industry endorses the proposed approach as a reasoned judgment of the nation's warfighters and submits that their judgment should be paramount on this issue.

Obstacles to Efficiency

Although Congress regularly expresses support for both the military and the market, it has repeatedly passed laws that block the military's desire to rely more on the market for depot maintenance and other support functions. The two clearest examples of this ambivalence are 10 U.S.C. 2466, which reserves at least 60% of all depot maintenance for performance by federal employees, and 10 U.S.C. 2469, which requires that government depots be allowed to bid on workloads worth over $3 million before they can be outsourced. The practical effect of both laws is to impede the military's ability to manage depot maintenance efficiently for the benefit of the warfighter and the taxpayer.

Repeal of both provisions is supported by all of the Defense Department's senior policymakers, all of the military services and virtually all outside experts. Repeal is, we believe, favored by the vast majority of members of Congress. The provisions remain in place because some legislators fear that repeal would lead to a loss of jobs at depots.

However, the debate over repeal of sections 2466 and 2469 is not so much about whether jobs will be lost as *where* they will be lost. The on-going consolidation of the post-Cold War defense establishment has already eliminated over a million jobs in the public and private sectors, and many more will be lost in the future. The only real issue is whether these job losses will occur in a manner that serves the best interests of the warfighters and taxpayers.

What Is The Right Thing To Do?

In an election year, it is sometimes difficult for political leaders to do what is manifestly right for the nation. Repeal of laws that impede the military's ability to manage its affairs efficiently is clearly in the public interest, even if it deprives some federal workers of redundant jobs. Opponents of change claim they are protecting readiness, but the military services all disagree. In fact, military leaders believe that sections 2466 and 2469 reduce funds for modernization and thereby place future readiness in severe jeopardy.

Opponents of change also claim there is not clear evidence that private enterprise can perform maintenance more efficiently than government workers. However, a huge body of empirical evidence -- and the outcome of the Cold War -- says otherwise. No respectable economist seriously disputes the view that market-driven organizations are more efficient than government entities.

The efficiency and reliability of the private sector is readily demonstrated by the many mission-essential military systems that are already maintained in the private sector, such as F-117 stealth fighters, engines for the B-2 and U-2 aircraft, Aegis cruisers and destroyers, and the Army's latest battlefield telephone system. These systems underscore the fact that opposition to repeal of sections 2466 and 2469 is not so much about readiness as about politics. Supporters of the *status quo* must explain why they oppose what the warfighters want and the taxpayers deserve: a modern, efficient military that is managed without regard to political favoritism. That is what industry supports, and we call upon Congress to do likewise.

In summary, industry believes the time has come to provide the warfighters the management flexibility they need to be able to reduce Cold War support infrastructure and thereby afford force modernization. The congressional restrictions on outsourcing of depot maintenance -- the 60/40 rule (Section 2466) and the $3 million threshold (Section 2469) -- must be repealed.

PUBLIC EMPLOYEE DEPARTMENT
AFL-CIO

AL BILIK, *President*
JOHN F. LEYDEN, *Secretary-Treasurer*

Executive Vice Presidents

Richard W. Corbiz
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John N. Sturdivant

April 24, 1996

The Honorable Herbert H. Bateman
Chairman
Subcommittee on Military Readiness
Committee on National Security
U.S. House of Representatives
2120 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

As the Subcommittee on Military Readiness begins its mark-up of FY 1997 Department of Defense (DOD) Authorization legislation, the Public Employee Department (PED), AFL-CIO, urges you to reject DOD proposals that essentially would eliminate current statutory and regulatory limits on DOD privatization. The DOD proposal would expand the number and types of services that could be privatized to include inherently governmental functions heretofore regarded as critical to the national security, prevent federal employees from competing for work, and enable the Pentagon to use privatization as a tool to subvert and politicize the base closure (BRAC) process.

Under the proposal, DOD would be permitted to discard the 60/40 rule, which requires that 60 percent of repair and maintenance work on military hardware be performed at public defense depots by experienced and reliable federal employees. The rule was established to protect "core" work deemed essential to the national security, thus ensuring that the depots and their workforce would be able to maintain the readiness of our armed forces in any circumstances. Rather, DOD's proposal would create a fluctuating definition of what is "core" work. In addition, depots would be allowed to perform only a narrow range of services that even the most dedicated privatization advocates could not justify contracting-out. The depots would also be prevented from receiving assignments to maintain new weapons systems, thus slowly starving them out of existence. To quote the Assistant Deputy Under Secretary of Defense (Maintenance Policy, Program and Resources), speaking to a congressional delegation last February: "If the depots don't get any new work from new weapons systems or from closing depots, they will be closed in nine years."

The 60/40 rule should be maintained. There are no viable alternatives to the 60/40 rule to protect "core" operations. Without a quantifiable, concrete alternative definition of "core" work, there will be a continuous annual debate on what is "core" and who should perform the work. Continuous re-examination would create turbulence and uncertainty, subjecting our nation's depot system to a series of haphazard starts and stops. It would also inevitably lead to production planning and workload allocation decisions being driven by political considerations rather than by the needs of our armed forces. In addition, the following facts must be considered. Federal depots are free of the costs and delays normally associated with DOD contract negotiations and the interruptions and uncertainties of the private market, including mergers, bankruptcies. Federal depots are appropriately and primarily motivated by the readiness needs of our armed forces; and while cost efficiency is an important consideration, federal depots are not ruled by their bottom line and profits. Finally, federal depots must be kept strong and secure so they will have the ability to perform crucial work contractors are likely to forego, including the repair of old weapons and equipment and maintenance of small inventory items.

The proposed expansion of DOD privatization would permit the Pentagon to discard the current safeguard ensuring that military installations are protected by federal fire fighters and security guards. In the current environment of austerity and shortages of federal employees, it would be especially reckless to expect that DOD managers will be in a position to adequately monitor and assure that contractor fire fighters and security guards possess the needed skills, comparable to their federal counterparts, or that the necessary staffing levels, response times, safety standards essential to the protection of out nation's military installations are maintained.

The DOD proposal would prevent federal employees from competing for work by allowing the Pentagon to bypass the competitive procedures of Circular A-76, replacing it with the Federal Acquisition Regulations (FAR) which, unlike A-76, does not require that federal employees be allowed to compete for work. The effect would be to drive up costs. The GAO stated in its testimony before your Subcommittee last week that "Privatizing without public-private competitions and/or privatizing into a non-competitive environment would not likely result in expected savings and may actually be more costly." The GAO went further to state that their "review of the depot maintenance public-private competition program revealed that 67 percent of the 95 non-ship competitions were won by DOD depots--with winning public sector bids averaging 40 percent less than their closest private sector competitor...Additionally, we analyzed 240 active depot maintenance contracts, finding that 182--76 percent--were awarded sole-source...Finally, our analysis of a limited number of military systems or components that are dual-sourced--that is, repaired by both a DOD depot and a private sector firm--determined that DOD depot prices were lower for 62 percent of the items."

In addition, despite years of debate and countless studies, no one has been able to demonstrate that privatization results in savings. In fact, GAO reports (GAO/GGD-90-58) that "Reliable information does not exist with which to assess the soundness of savings estimates, and neither OMB nor DOD knows the extent to which expected savings are realized." In yet another report on the issue (GAO/GGD-94-95), GAO in its examination of functions which had been contracted-out discovered that savings, often substantial, could have been achieved if only the work had been kept in-house and continued to be performed by federal employees. Furthermore, history has shown that oversight of contracting-out is almost impossible. No matter how tight the controls on contractors, billions of dollars are lost because of waste, fraud and abuse. A 1990 DOD Inspector General's report on contracting-out concluded that of 41 audited contracts, the government not only did not save the targeted $94.9 million, but also paid $63.4 million more than the cost of retaining the work as a government-controlled function. This is $158.3 million in wasted taxpayer dollars.

Finally, the DOD proposal seeks to bypass the BRAC process, which sought to take the politics out of military base closure decisions, and its privatization-in-place initiative will negate expected savings from those closures. DOD states that it will take full advantage of on-going and future depot maintenance infrastructure divestiture related to BRAC activity in developing privatization prototype initiatives. In its testimony, however, GAO stated that "DOD's plans to privatize-in-place and delay closure and most workforce reductions until 2001 at the Sacramento and San Antonio Air Logistics Centers are not likely to be as cost-effective as closing the military facilities and reallocating depot maintenance work to other centers or private sector facilities having underutilized capacity...Our analysis indicates that savings of about $182 million annually can be achieved by transferring the centers' depot maintenance workloads to the remaining depots, which have about 45 percent excess capacity in fiscal year 1996 and are significantly underutilized. Further, our analysis of privatization-in-place at Newark Air Force Base, Ohio, indicates that maintenance costs will likely increase rather than decrease as a result of this privatization initiative." One GAO cost estimate (GAO/NSIAD-96929) projects "that over a five-year period, the privatization option may cost $600 million more than costs that would have been incurred had Newark continued operations as a military depot."

In addition, as your Subcommittee repeatedly heard during your hearings last week, DOD's proposal would set up an amorphous BRAC process, where the Pentagon could decide completely on its own, without any Congressional oversight, to privatize-in-place any installation in the nation. This would give the Secretary of Defense unprecedented power to target legislators by simply shutting down bases in their districts and selling them to contractors.

For all the above reasons, the DOD proposal for expanding Pentagon privatization must be rejected. The PED is made up of 34 national unions who represent nearly 4.5 million government employees at all levels of government, including approximately 900,000 non-postal federal employees. We thank you for your consideration of our views, presented on behalf of our members, and request that this letter be included as part of your Subcommittee hearing record.

Respectfully,

Al Bilik
President

John F. Leyden
Secretary-Treasurer

OFFICE OF THE SECRETARY OF DEFENSE

REPORT TO CONGRESS

POLICY REGARDING PERFORMANCE OF DEPOT-LEVEL MAINTENANCE AND REPAIR FOR THE DEPARTMENT OF DEFENSE

INTRODUCTION

Depot-level maintenance and repair entails repair, rebuilding, and major overhaul of weapon systems (e.g., ships, tanks, and aircraft), parts, assemblies, and subassemblies. It also includes limited manufacture of parts, technical support, modifications, testing, and reclamation as well as software maintenance. Depot maintenance is currently accomplished by some 89,000 Federal Government employees ranging from highly trained technicians and skilled artisans to engineers and top-level managers. The Military Services currently operate 30 major depot maintenance facilities (some of which are in the process of being closed as DoD maintenance depots). Additionally, the Department uses in excess of 1,300 U.S. and foreign commercial firms to support its depot maintenance requirements. In FY 1996 depot maintenance of DoD weapon systems and equipment amounted to about $13 - $14 billion. DoD policy governing depot maintenance operations is predicated on providing flexible, timely and cost-effective depot maintenance support, as well as retaining military control over certain essential capabilities. This policy is necessarily shaped by departmental requirements for readiness, sustainability and support; by evolving national military strategy requirements; and by external considerations such as legislative mandates.

Prior to 1988, DoD maintenance capabilities were comprised of a large organic depot maintenance complex that was a legacy of the Cold War. It was designed to sustain protracted engagement of sizable forces engaged globally against a substantial enemy. This structure was based on the premise that the essential skills, facilities, and equipment were not readily available in the private sector. With the end of the Cold War and the beginning of the base realignment and closure (BRAC) process, DoD has undertaken a significant downsizing of the organic depot maintenance structure. Contributing to the ability to downsize is industry's increasing capability to provide repair and maintenance services for high-technology military hardware. High quality, efficient maintenance service providers have emerged for many DoD overhaul requirements, creating a competitive private sector base from which the DoD can often achieve best value. It has become apparent that private sector wartime support of some mission essential systems and components can be assured with acceptable risk. The Department, however, recognizes that some capabilities must be maintained under direct Department control and carried out in DoD facilities by Federal employees and that some workloads may remain most cost effective within an organic structure. CORE capability requirements are derived from applicable Joint Chiefs of Staff contingency scenarios and requirements -- currently the two major regional contingency scenario. In this time of diminishing Defense budgets, the Department believes that the costs of providing essential wartime capabilities and performing all depot maintenance work can be reduced. Sizing organic depots to provide CORE capabilities is more effective than ensuring facilities perform workload corresponding to at least 60 percent of the funds made available in a fiscal year to a military department or Defense Agency for depot-level maintenance and repair, as is currently

required by statute. The current statutory "60/40" requirement is arbitrary and undermines effective depot maintenance management. Such a restriction prevents DoD from taking full advantage of private sector opportunities and is counter to efficient government and managerial principles. The Department has in place, and practices the necessary management of its depot maintenance program to justify repeal of the current legislative encumbrances on depot maintenance management.

To compile this report some 61 documents were reviewed and considered (see Section VII for a complete listing). In articulating current DoD policies on depot maintenance management, we considered the national security interests of the United States (including scenario support requirements, the need for ready and controlled sources, and best value for limited DoD budget resources) and capabilities inherent within the industrial base comprising both public and private sectors. These policies factor in decisions and directions of the Base Closure and Realignment Commission as well as the Department's own decisions regarding infrastructure downsizing, workload transfers, and capital investments. Paramount in all Departmental policy considerations are: (1) the readiness and sustainability requirements of DoD forces, (2) the optimum use of scarce Department resources, and (3) exploitation of the strengths of United States commercial industries.

This report is provided in compliance with the National Defense Authorization Act for Fiscal Year 1996. The policies discussed herein outline the framework within which DoD depot maintenance is being managed. This policy is articulated in a number of publications, memoranda and decision documents. Upon review by the Congress of the United States, as required by the National Defense Authorization Act for Fiscal Year 1996, DoD plans to develop an updated single publication with applicable depot maintenance policy guidance. The requirement for this report to Congress is outlined below. Subsequent sections of the report discuss the principal policies of the Department for management of its depot maintenance operations.

REPORT REQUIREMENT

Section 311, paragraph (c), of the National Defense Authorization Act for Fiscal Year 1996 states:

> It is the sense of Congress that there is a compelling need for the Department of Defense to articulate known and anticipated CORE maintenance and repair requirements, to organize the resources of the Department of Defense to meet those requirements economically and efficiently, and to determine what work should be performed by the private sector and how such work should be managed.

Section 311 directs the Secretary of Defense to develop and report to the Committee on Armed Services of the Senate and the Committee on National Security of the House of Representatives, a comprehensive policy on the performance of depot-level maintenance and repair for the Department of Defense that maintains the capability described in Section 2464 of Title 10, United States Code. The Section further directs that in developing the policy, the Secretary shall:

35-209 96 – 18

1. Identify for each Military Department, with the concurrence of the Secretary of that Military Department, those depot-level maintenance and repair activities that are necessary to ensure the depot-level maintenance and repair capability as required by Section 2464 of Title 10, United States Code.

2. Provide for performance of CORE depot-level maintenance and repair capabilities in facilities owned and operated by the United States.

3. Provide for the CORE capabilities to include sufficient skilled personnel, equipment, and facilities that:

a. are of the proper size to: (1) ensure a ready and controlled source of technical competence, repair, and maintenance capability necessary to meet requirements of the National Military Strategy and other requirements for responding to mobilizations and military contingencies, and (2) provide for rapid augmentation in time of emergency; and

b. are assigned sufficient workload to ensure cost efficiency and technical proficiency in time of peace.

4. Address environmental liability.

5. In the case of depot-level maintenance and repair workloads in excess of the workload required to be performed by Department of Defense depots, provide for competition for those workloads between public and private entities when there is sufficient potential for realizing cost savings based on adequate private sector competition and technical capabilities.

6. Address issues concerning exchange of technical data between the Federal Government and the private sector.

7. Provide for, in the Secretary's discretion and after consultation with the Secretaries of the Military Departments, the transfer from one Military Department to another in accordance with merit-based selection processes, workload that supports the CORE depot-level maintenance and repair capabilities in facilities owned and operated by the United States.

8. Require that, in any competition for a workload (whether among private sector sources or between depot-level activities of the Department of Defense and private sector sources), bids are evaluated under a methodology that ensures that appropriate costs to the Government and the private sector are identified.

9. Provide for the performance of maintenance and repair for any new weapon systems defined as CORE, under Section 2464 of Title 10, United States Code, in facilities owned and operated by the United States.

REPORT CONTENT

This report consists of the following sections:

Section	Title
I	Depot Maintenance Overview
II	CORE Capabilities
III	General Management
IV	Public Sector Business Management
V	Workload Management
VI	Private Sector Support
VII	Listing of Documents Used to Compile Report

SECTION I
DEPOT MAINTENANCE OVERVIEW

Depot-level maintenance and repair entails repair, rebuilding, and major overhaul of weapon systems (e.g., ships, tanks, and aircraft), parts, assemblies, and subassemblies. It also includes limited manufacture of parts, technical support, modifications, testing, and reclamation as well as software maintenance. While depot-level facilities have historically had more extensive technical capability than lower levels of maintenance, the differences between levels are becoming less pronounced, workload is shifting among them, and in some cases intermediate and depot capabilities are being combined. Ongoing reductions in military force structure and weapon systems/equipment stocks are decreasing overall requirements for DoD maintenance support. The increased reliability of newer/modified systems and lower operational tempos of some users also contribute to decreasing depot maintenance support requirements.

Because of their role in supporting contingency requirements, depot maintenance capabilities will continue to be vital in the national security environment. Consistent with the *Defense Logistics Strategic Plan* (DLSP), depot maintenance operations are focused on providing responsive capabilities to ensure readiness and sustainability for the Total Force in both peace and war. DoD depot maintenance programs are structured and managed to provide reliable, flexible, cost-effective and timely depot maintenance support to the warfighters. Organic depot maintenance facilities are maintained to provide required capabilities essential to each Service's wartime mission. At the same time, depot maintenance managers are also attempting to create the leanest possible infrastructure consistent with providing essential support capabilities.

Each DoD Component owns and operates its own organic depot maintenance infrastructure. The bulk of the workload is associated with ships and aircraft, with each accounting for about 40 percent (by dollar value) of the total effort. The remaining 20 percent is for missile, combat vehicle, and other ground equipment system workloads. Organic depot maintenance facilities typically employ several thousand people and provide robust maintenance capabilities. The DoD Components are currently downsizing the organic depot infrastructure, primarily by implementing base realignment and closure decisions (BRAC). When the BRAC process is completed in 2001, only 19 of the 38 major organic depots that existed in 1988[1] will remain in operation as Government activities. Some of the closing organic depots may be transitioned into private sector entities and continue to operate as industrial facilities staffed by non-Federal Government employees. The Department estimates that in FY 1996, about 89,000 Federal employees will be assigned as depot maintenance personnel, down from a high of 156,000 in FY 1987.

To provide needed private sector services and materials to support DoD depot maintenance requirements, the Military Services also contract with more than 1,300 U.S. and foreign commercial firms.[2] These commercial firms range from original equipment manufacturers (OEMs) with thousands of employees and extensive capabilities, to small "job shops" with only a few employees and limited or highly specialized capabilities. Between these two extremes,

[1] DoD has also closed overseas maintenance depots through internal management actions outside the BRAC process.

[2] *Depot Maintenance Cost System*

there are increasing numbers of commercial depot maintenance facilities with capabilities which are generally commensurate with, or superior to, those located at the organic depots.

The total magnitude of depot maintenance expenditures, as well as the actual proportions of these expenditures that are consumed by the public depots versus the private sector, are not precisely measured. DoD currently accounts for about $13 - $14 billion[3] annually for depot-level maintenance and repair work performed in both the public and private sectors. This number, however, is not all inclusive. Items such as contractor logistics support (CLS) and interim contractor support (ICS) funds, some major modifications, and parts of software maintenance are not fully captured in depot-level maintenance by the accounting process of some of the Services. Nor does the $13 - $14 billion include workload from certain other sources such as other Federal agencies or Foreign Military Sales. It is projected that the size of the depot maintenance effort, as currently depicted, will decline in the future. From FY 1996 to FY 2001, the decline in total DoD funding is currently estimated to total about 6 percent (in constant dollars[4]). This decline is principally due to continuing reductions in military force structure and implementation of BRAC recommendations, but also due in part to more efficient operations.

DoD estimates that, historically, 65-70 percent of the funds specifically appropriated for depot maintenance have been spent in/by public depots. This does not represent the full public sector consumption of funds since a portion of these funds is spent on private sector material and services. Material cost typically represents 30 percent of the total public depot costs of which private sector purchases (i.e., raw materials and replacement parts used in organic depots) are a part. Additionally, maintenance depots contract for services and goods directly, with these costs still being reflected as part of the public sector effort; these costs are estimated to amount to as much as 5 percent of total depot maintenance costs. Also, a substantial amount of the work performed by depot maintenance activities, in both the public and private sectors, involves the manufacture and/or installation of modification kits. However, this work is not accounted for by some Services in their depot maintenance accounting since it is normally funded by procurement appropriations (vice operations and maintenance appropriations), and is sometimes performed in the field or at other non-depot locations. Thus, it is clear that the actual portion of organic expenditures is less than 65-70 percent. The Department is well aware of the current extent of private sector capabilities for depot maintenance operations, and believes that private sector support should be used to the maximum extent feasible. The organic depot infrastructure should be sized based on the depot maintenance CORE concept and sound business decisions.

The remainder of this report addresses the principal policies which guide the management of DoD depot maintenance. Each section addresses a major policy or operational area. Within the sections, the principal policy tenets are outlined and discussed either separately or as a block of policy guidance.

[3] *Defense Depot Maintenance Council Business Plan, FY 1995-1999*, page 2-8

[4] Using USD(Comptroller) deflators

SECTION II
CORE

POLICIES: Establish CORE depot maintenance capabilities to meet essential wartime demands, promote competition, and sustain institutional expertise. These capability requirements shape the minimum amount of organic depot facilities, equipment, and personnel that DoD maintains as a ready and controlled source of technical competence. CORE capabilities mitigate the operational risks associated with maintaining readiness for successfully completing, and expeditiously recovering from contingency operations.

Consider and manage CORE requirements from a DoD perspective (i.e., the integrated totality of the individual Service CORE requirements equals DoD CORE requirements).

Size the organic sector to perform CORE (include last source of repair and best value requirements); pursue downsizing commensurate with changes in requirements and overall force structure.

Identify those depot maintenance facilities established to provide CORE depot maintenance capabilities.

Quantify CORE requirements on a biennial basis or when scenario or other structural changes make it necessary.

Provide for a robust, technologically proficient organic infrastructure to support CORE requirements, including those CORE capabilities required to support new and future weapon systems.

Manage organic infrastructure investments, process modernization, and workforce development necessary to sustain required CORE-related organic capabilities (as well as last source of repair and best value requirements).

The current DoD CORE policy describes CORE in these terms:

> Depot maintenance CORE is the capability maintained within organic Defense depots to meet readiness and sustainability requirements of the weapon systems that support the JCS contingency scenario(s). CORE exists to minimize operational risks and to guarantee required readiness for these weapon systems. CORE depot maintenance capabilities will comprise only the minimum facilities, equipment, and skilled personnel necessary to ensure a ready and controlled source of required technical competence. Depot maintenance for the designated weapon systems will be the primary workloads assigned to DoD depots to support CORE depot maintenance capabilities.

It is important to note that not all critical or mission-essential weapon systems and equipment will necessarily be maintained in organic depot maintenance facilities, but the capability to

perform depot maintenance on designated weapon systems must be maintained organically. Simply put, CORE represents the minimum amount of maintenance capability that the DoD Components must maintain in organic depot facilities to ensure that contingency operations are not compromised because of a lack of essential depot maintenance support.

Risk avoidance drives CORE capability requirements. In the context of depot maintenance support to the operating forces, there are three basic risks which must be overcome to justify outsourcing of a critical organic capability. These risks are: Readiness Risk, Sustainability Risk, and Technology Risk.

- Readiness Risk: The risk that the absence of timely depot capability will compromise operational readiness. DoD must ensure that mission essential weapon systems can be kept in a high state of operational readiness during peacetime operations and exercises. These readiness-driven CORE capability requirements involve the capacity to perform scheduled industrial maintenance actions such as overhaul, calibration, and component rework, as well as unscheduled depot-level repair actions. Readiness risk has increased significance in meeting requirements of the latest JCS wartime scenarios.

- Sustainability Risk: The risk that the industrial base will not have sufficient depot-level competencies and capabilities to ensure that mission essential weapon systems can be repaired and maintained to support contingency operations and meet the time constraints imposed by the JCS scenario. The depot capabilities needed to sustain combat are built upon peacetime readiness CORE capability requirements. Sustainability CORE capability requirements typically include those required to perform unscheduled maintenance actions that are beyond the capability or capacity of intermediate maintenance activities (e.g., crash/battle damage repair; emergency, high volume repair of mission essential components (surge); and emergency manufacture of critically needed repair parts). Sustainability CORE capability also includes the ability to provide emergency on-site depot engineering and maintenance field teams.

- Technology Risk: This risk is associated with the absence of technological knowledge and awareness. Modern weapon systems are extraordinarily complex and the Services must maintain an organic capability to understand, master, and support current technology. Technology CORE capabilities include a proficiency in the overhaul and repair processes inherent in new and emerging weapon systems. For mature systems, technology CORE capabilities include the ability to reverse engineer problem hardware and software so that fault isolation and repair procedures can be accomplished even if the original manufacturer is no longer in business. These capabilities also include the ability to conduct evaluations of weapon system failure modes and effects to predict safety hazards, the ability to mitigate readiness degraders and unanticipated support problems, and the skills and experience needed to fully understand the engineering and technical competencies of the market place in order to be a "smart buyer" of commercial depot industrial products and services.

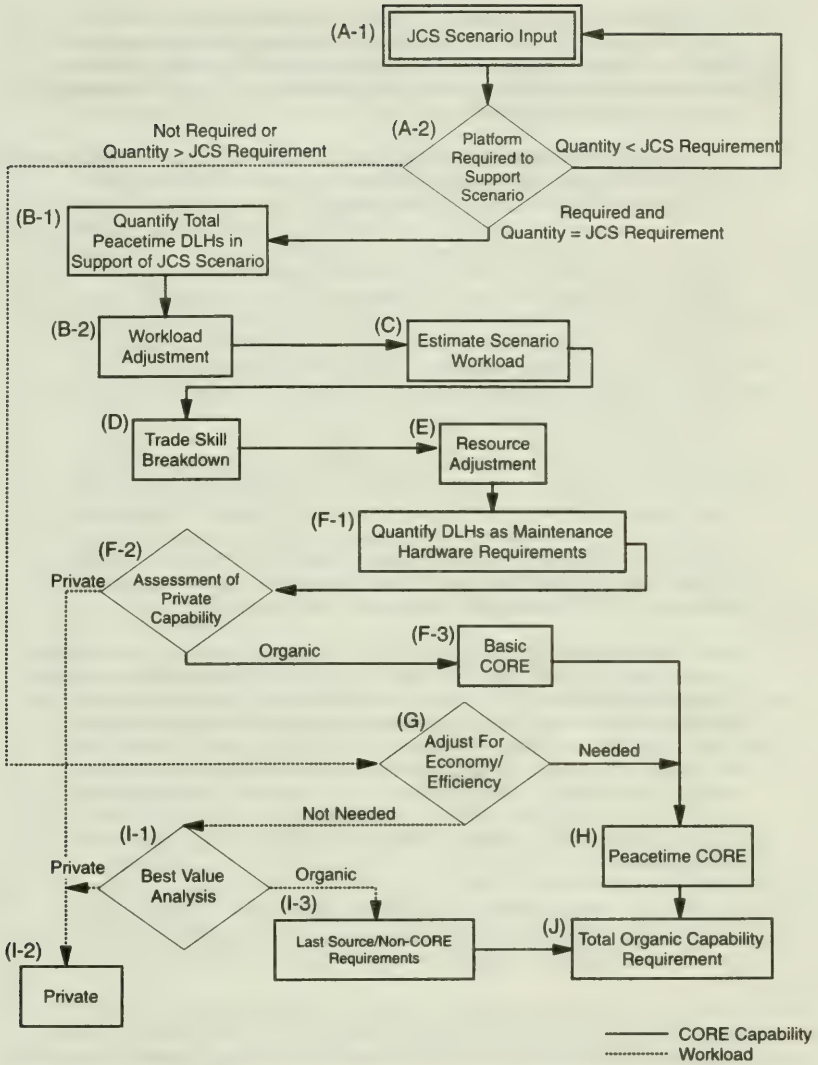
The DoD CORE policy provides a sound basis for the identification of the depot maintenance capabilities which ensure a ready and controlled organic source of technical competence. In order to efficiently maintain these CORE capabilities, organic depot facilities, equipment, and personnel resources are used to accomplish a broad range of depot maintenance workload in

support of peacetime operations. Most of this workload involves the overhaul or repair of weapon systems and their components identified in the JCS scenarios. Such work often includes fabrication of parts when not readily available from normal sources. Modifications on selected systems are also accomplished as necessary and appropriate, in conjunction with CORE workload requirements. Organic workload also includes "best value" (no economical private sector source) and "only source of repair" (no qualified or interested private sector source) work. In sizing the organic base to match the CORE requirements, a single shift forty-hour work week standard is used, thus preserving the depot's capability to instantaneously respond to surge requirements via expanded work hours or adding shifts during emergency operations.

Organic capability requirements will change as a result of factors such as force structure changes, changing threats, introduction of new weapon systems, the aging or modification of existing weapon systems, added capabilities of the private sector, or even changes in battle doctrine. For these reasons it is necessary to review the CORE capability requirements on a regular basis, or when the situation dictates. These reviews are conducted at a minimum of every two years and must be based on the JCS Defense Planning Guidance. Just as the capability requirements change, the workloads required to support these capabilities will also change.

The determination of CORE capability requirements and the depot maintenance workloads necessary to sustain these capabilities, are developed by each Service using a jointly agreed upon methodology. The totality of each of these calculations then becomes the DoD requirement.

The methodology used by the Services in determining their CORE capability requirements and the workloads necessary to sustain these capabilities, is depicted in the diagram below. This process was recently refined by the Services and approved by the Defense Depot Maintenance Council (DDMC). The chief difference from past practice is a best value assessment of the private sector's ability to assume those workloads not required to support a capability necessary to the Military Department Secretary's organic industrial base. For those mission essential workloads which historically would dictate retention of a CORE capability, the Service will conduct an assessment of private sector capabilities. Where it is determined that the private sector can provide the required capability with acceptable risk, reliability and efficiency, then the workload should be made available for competition in the private sector. Workloads not required to sustain CORE do not require a risk assessment. Additionally, the Services recognize that not all of the depot maintenance on a particular weapon system is necessary to sustain CORE capabilities. CORE is the minimum workload needed to preserve critical depot-level capabilities. There may be a mix of private and public sector support for the same system. Each step outlined is further explained in text following the diagram.



CORE Methodology

- **BLOCK A-1 -- JCS SCENARIO INPUT**. The determination of the total DoD organic depot-level capability is based on the JCS combat contingency scenario(s) and JCS Defense Planning Guidance. Each Service's required organic capability, expressed in direct labor hours (DLHs), will vary according to their different roles in support of the JCS scenario(s).

- **BLOCK A-2 -- PLATFORM REQUIRED TO SUPPORT SCENARIO**. Each Service determines the specific platform (e.g., Abrams A-1 tank, F-14, F-15) required to support the selected JCS scenario. If the platform is required, quantify and compare the scenario requirements with the respective total active inventories to identify any inadequacies. If the platform quantity is not available, notify JCS. If the platform quantity is available and equal to the JCS requirement, go to Block B-1 (Quantify Total Peacetime DLHs in Support of JCS Scenario). If the platform quantity is greater than the JCS requirement, the amount equal to the JCS requirement goes to Block B-1 (Quantify Total Peacetime DLHs in Support of JCS Scenario), and the amount greater than the JCS requirement goes to Block G (Adjust for Economy/Efficiency). If the platform is not required, go to Block G (Adjust for Economy/Efficiency).

- **BLOCK B-1 -- QUANTIFY TOTAL PEACETIME DIRECT LABOR HOURS (DLHs) IN SUPPORT OF JCS SCENARIO**. Determine the peacetime DLHs for those platforms necessary to support the JCS scenario. This is accomplished by dividing the JCS scenario platform requirements by the occurrence factor (e.g., number of years between return to depot) multiplied by the platform work package/norm. The platform work package/norm is determined by each Service and based on their different roles in support of the JCS scenario.

- **BLOCK B-2 -- WORKLOAD ADJUSTMENT**. Adjust workload for experience and scenario driven factors. Develop scenario workload experience for those quantities passed from B-1 (Quantify Total Peacetime DLHs in Support of JCS Scenario). The Services use either a composite, weighted average or platform specific factor to consider readiness, sustainability, and/or return to peacetime readiness in their calculations. The specific workload factors will be determined by available information from scenario models (which include factors for platform OPTEMPO, attrition, etc.), occurrence factors, historical peacetime/wartime reliability and maintenance factors (e.g., DESERT SHIELD/DESERT STORM), and other scenario driven factors.

- **BLOCK C -- ESTIMATE SCENARIO WORKLOAD**. Estimate workload-based readiness/sustainability requirements. Using the information from Block B-2 (Workload Adjustment), determine the scenario-related workload in DLHs.

- **BLOCK D -- TRADE SKILL BREAKDOWN**. Determine depot skills required. Using Block C (Estimate Scenario Breakdown) as a basis, identify the depot-level capabilities by skill required to support the scenario-driven platforms and associated workload. This breakdown is not part of the numerical calculation.

- **BLOCK E -- RESOURCE ADJUSTMENT**. Adjust for depot surge capacity. The resource adjustment is accomplished by applying a Service value to Block C (Estimate Scenario Workload) to reduce the scenario workload to peacetime staffing required DLHs. This adjustment reflects the workforce's ability, through the use of overtime and additional workdays, to meet emergent requirements.

- **BLOCK F-1 -- QUANTIFY DLHs AS MAINTENANCE HARDWARE REQUIREMENTS**. The quantity of DLHs from Block E (Resource Adjustment) is divided by the platform work packages/norms to convert to the maintenance hardware requirement.

- **BLOCK F-2 -- ASSESSMENT OF PRIVATE CAPABILITIES**. If the capability associated with the maintenance hardware requirement is needed to support the Service Secretary's organic industrial base required for readiness and control, then go to Block F-3 (Basic CORE). If not, conduct a risk assessment to determine if maintenance sources exist in the private sector to support the platform/hardware requirement. This assessment will consider criteria such as: (1) Do private sources exist in the private sector that are economical and possess the maintenance capability and capacity to do the work? (2) Have private sources demonstrated proven past performance? If the assessment determines that the private sector can provide the required capability with acceptable risk, reliability and efficiency, then go to Block I-2 (Private). If not, then go to Block F-3 (Basic CORE).

- **BLOCK F-3 -- BASIC CORE**. Compute CORE with above adjustments. Basic CORE consists of the requirements identified in Block E (Resource Adjustment) minus the requirements transferred to the private sector in Block F-2 (Assessment of Private Capabilities).

- **BLOCK G -- ADJUSTMENT FOR ECONOMY/EFFICIENCY**. Apply economy/efficiency factor to keep the required minimum CORE support from being exorbitantly and prohibitively expensive. Capability utilization is examined and efficiency factors are applied to optimize throughput and ensure valuable personnel are fully utilized rather than left idle for long periods of time. The economy and efficiency adjustments are constrained by the number of personnel required to accomplish requirements identified in Block F-3 (Basic CORE). Examine the maintenance requirements for the platform types passed from Block A-2 (Platform Required to Support Scenario) or Block F-2 (Assessment Of Private Capabilities) for potential augmentation of like platforms/commodities or to improve economies of scale. If needed, go to Block H (Peacetime CORE). If not needed, go to Block I-1 (Best Value Analysis). Additional adjustments required by policy or law (e.g., adjustment necessary to meet "60/40") are also made at this point in the methodology.

- **BLOCK H -- PEACETIME CORE**. Basic CORE plus economy/efficiency adjustments. The result of adding Block F-3 (Basic CORE) to Block G (Adjust for Economy/Efficiency).

- **BLOCK I-1 -- BEST VALUE ANALYSIS**. Usually private/private competition will determine best value. Work will be assigned to an organic depot only when private industry cannot meet Service requirements or if the capabilities are nonexistent in the private sector. If private, go to Block I-2 (Private) or if organic, go to Block I-3 (Last Source/Non-CORE Requirements).

- **BLOCK I-2 -- PRIVATE**. Those platforms passed from Block F-2 (Assessment of Private Capabilities) and Block I-1 (Best Value Analysis) will be made available for support by the private sector (contracted out).

- **BLOCK I-3 -- LAST SOURCE/NON-CORE REQUIREMENTS**. Those requirements passed from Block I-1 (Best Value Analysis) will be accomplished by an organic source because there are compelling reasons that preclude privatization (e.g., no other sources, private industry is cost prohibitive, etc.).

- **BLOCK J -- TOTAL ORGANIC CAPABILITY REQUIREMENT**. Block H (Peacetime CORE) plus Block I-3 (Last Source/Non-CORE Requirements) results in an annual organic workload consistent with the JCS scenario requirements, expressed in DLHs.

As shown in the preceding diagram, the capability requirement determined as the result of the above methodology includes not only the CORE requirement, but also the capacity needed to handle last source adjustments for economy/efficiency and best value. It is also recognized that the detailed computation of CORE in peacetime will not perfectly anticipate contingency requirements if and when wartime operations commence. The inability to be precise in predicting exact wartime needs underscores the importance of our organic depot maintenance structure, which employs artisans in many classes of repair requirements who can be re-directed towards the actual end items needed to support any arising contingency. In the aggregate it is anticipated that the pluses and minuses will balance. Hence, the overall computation of CORE will be a reasonable statement of requirements needed to establish and maintain contingency-driven weapon system support capabilities. It is important to note that the CORE calculation yields direct labor hour requirements which can then be translated into needed direct production manpower requirements. The process does not account for associated indirect and general and administrative overhead manpower requirements.

Standard workload driven manpower requirements determination methodologies will be used to size the core depot workforce. Methodologies will recognize variances in peacetime and wartime availability and will be determined using a total force approach that ensures that the numbers of systems/platforms and work packages, factors, and other criterion are consistent with those used to size military units in the force structure. In addition, methodologies used to determine CORE wartime manpower requirements will be structured to ensure that depots are sized to accomplish required workloads within the time constraints imposed by the JCS scenario. CORE manpower requirements will be established at levels that provide an adequate inventory of each occupation and experience level to satisfy projected essential mobilization or wartime surge demands that cannot be met with personnel acquired after mobilization.

DoD plans that the DoD activities specified below will maintain facilities, equipment, and trained personnel to provide organic depot maintenance capabilities. These activities will be sized appropriately and provided adequate peacetime workloading to effectively and efficiently use their CORE capabilities and work other non-CORE sustaining workloads assigned as "best value" or "only source of repair." Appropriate CORE capabilities will be phased out or transferred from those activities listed below (and indicated by asterisk) that are subject to closure or realignment based on BRAC decisions or other DoD internal management actions. The following list of activities is based upon current CORE capability requirements. Future revisions to CORE capablity requirements could result in changes to the activities listed below.

Department of Navy depot maintenance activities:

Naval Aviation Depot, Cherry Point
Naval Aviation Depot, Jacksonville
Naval Aviation Depot, North Island
Naval Aviation Depot, Alameda*
Naval Aviation Depot, Norfolk*
Long Beach Naval Shipyard*
Norfolk Naval Shipyard
Pearl Harbor Naval Shipyard
Portsmouth Naval Shipyard
Puget Sound Naval Shipyard
Naval Surface Warfare Center, Louisville*
Naval Surface Warfare Center, Crane
Naval Undersea Warfare Center, Keyport*
Space and Naval Warfare Systems Command
Marine Corps Maintenance Center, Albany
Marine Corps Maintenance Center, Barstow

Department of Army depot maintenance activities:

Anniston Army Depot
Tobyhanna Army Depot
Corpus Christi Army Depot
Red River Army Depot*
Letterkenny Army Depot*

Department of the Air Force depot maintenance activities:

Ogden Air Logistics Center
Oklahoma Air Logistics Center
Warner Robins Air Logistics Center
Sacramento Air Logistics Center*
San Antonio Air Logistics Center*
Cryptological Repair Facility, Lackland Air Force Base

SECTION III
GENERAL MANAGEMENT

*POLICIES: **Structure depot maintenance support capabilities to provide essential levels of readiness and sustainability.***

Support depot maintenance workloads using a mix of both public sector (organic) and private sector capabilities.

DoD depot maintenance is an essential element of the Department's overall program to provide for maintenance of assigned weapon systems and equipment. The goals of this program include:

- meeting peacetime readiness and combat sustainability objectives, and
- providing for applicable surge and contingency support requirements.

To achieve reliable, flexible, cost-effective and timely depot maintenance support, the Department has sized and structured a program that includes both public and private sector sources of depot maintenance repair. The program further addresses the fundamental need to, in specific cases, control the risks associated with failure to provide the requisite depot maintenance capabilities. The Services carry out a thorough analysis of depot maintenance support needs, review the risks associated with those needs, and structure their programs accordingly. The analysis done to determine CORE capability requirements addresses risk and industrial base capabilities, including those of the private sector. In those cases where the Services determine that risk-management requirements demand it, organic capabilities are retained. But, it is the overall combination of public and private sector sources, rationally determined and efficiently sized and workloaded, that provides the desired depot maintenance support program.

There is widespread acknowledgment that to provide the right mix of support, the public and private sectors must complement one another. Many recent studies on depot maintenance management have highlighted the need for an increase in the participation of the private sector. The private sector continues to be an integral partner in both accomplishing depot maintenance and in providing goods and services to support organic depot maintenance. It is incumbent upon the DoD to unambiguously define the roles of each sector, drawing on the strengths of each to accomplish the mission as economically as possible. There are significant differences between public depots and private firms which may assist in determining suitable performance in either sector. For a truly integrated depot maintenance industrial base to work effectively, the DoD must understand and draw upon the strengths of both sectors.

The Department has determined that organic depot maintenance capability must exist to ensure that the readiness and sustainability requirements in support of U.S. combat forces are maintained. To provide CORE capabilities, the Military Departments establish and maintain organic maintenance depots. There will, however, be a certain amount of depot maintenance which must be accomplished in these organic depots that is not required to support CORE capabilities. For example, it is expected that there will be workloads which industry cannot or will not compete for at reasonable cost; in these cases it falls to the organic depots to act as last

sources of repair. Likewise, there will be occasional situations when a Service finds that there are insufficient qualified commercial bidders for a particular non-CORE workload, and a DoD depot may be asked to participate in a public/private competition for that workload. The Department must also plan to be able to respond efficiently to emergency (fast turn-around) or low quantity workload requirements. Additionally, the Department may elect to accomplish certain non-CORE workload concurrent with ongoing CORE work when appropriate, to save weapon system downtime or to avoid unnecessary costs. Not all equipment identified as mission essential in the JCS scenario must be overhauled in organic depot facilities in order to support wartime needs. Private sector sources can and do support mission essential workload at acceptable risks to the warfighter, and numerous examples exist concerning the willingness and ability of the commercial sector to surge when required. Contractor support is currently relied upon for weapon systems such as KC-10 and F-117 aircraft as well as Army Mobile Subscriber Equipment. DESERT STORM experience validated the ability of private industry, in many instances, to provide depot maintenance support directly to combat forces.

Essentially, there are four broad types of organizations supporting depot maintenance, each with unique contributions. The first, original equipment manufacturers (OEMs), usually have large "indirect" staffs for engineering, research and development, marketing, and other functions. OEMs typically have relatively high overhead costs and extensive facilities. Comprising the second type is a significant "second tier" of suppliers that support the OEMs, specialized production and service firms, and maintenance depots. Private sector service companies represent a third type of organization, specifically organized to have small indirect staffs and small sunk investment costs. These firms are typically involved with installation of modifications or routine maintenance to an established specification. Overall private sector strengths include weapon system design, manufacture of component parts, specialized commodity production, and the capability to repair. These competencies must be preserved in order to assure full support, future weapon system development, and technological superiority. Finally, there are the organic depots. Often heavily facilitized, the depots are large-scale, integrated industrial activities that work on multiple commodities, usually associated with specific technologies under approaches such as the technology repair center concept and the center of technical excellence concept. As such, the organic depots represent an "insurance policy" that keeps in place the capability to address virtually any unpredicted wartime maintenance need. Under direct military control, the organic facilities can quickly change work mix, significantly increase production, develop and field hardware or software modifications, and dispatch field teams to analyze and solve logistics problems. This flexible response also has the virtue of being unhampered by contract provisions or lead time requirements.

Notwithstanding DoD's analysis of the appropriate mix of public and private sector depot maintenance, the Department must comply with the constraints imposed by Congress. The role of congressional guidance in determining workload balance is significant. Each year DoD is the focus of legislative direction contained in various appropriation and authorization acts, some of which have been codified as permanent law. Examples of existing legislation influencing the workload balance include:

- requirements that no more than 40 percent of funds made available in a fiscal year to a military department or Defense Agency for depot-level maintenance and repair may be to contract for the performed by non-government personnel, and

- the requirement that the Department ensure that the performance of a depot maintenance workload currently being performed at an organic depot, not be changed to a contractor unless public/private competitive procedures are used, or not be changed to another organic depot unless merit-based selection procedures are used.

Currently, the Department manages depot maintenance operations based on this statutory guidance. For example, each Military Department and Defense Agency is required to identify the relative workload levels of their public and private sector depot maintenance operations and to manage in such a manner as to be in compliance with the statutory workload balance requirement.

POLICIES: Provide for an integrated depot maintenance management framework that:

recognizes each Service's responsibility for logistics support to their forces;

considers overall DoD needs to be efficient and cost-effective;

uses the Defense Depot Maintenance Council (DDMC) to provide for necessary integration of depot maintenance management, planning, and operations; and

performs strategic planning for depot maintenance.

The Department recognizes the requirement for each Military Department Secretary to provide adequate logistics support for operating forces. With regard to depot maintenance, DoD believes that such requirements can best be met when addressed from within an integrated management framework that considers the totality of the Department's requirements, capabilities, and available resources. To that end, DoD has established appropriate approaches that take advantage of both the current Departmental structure (e.g., the Office of the Secretary of Defense, the Military Department Secretariats, Service Headquarters, and subordinate logistics commands/agencies) and a number of joint-Service management forums that monitor and oversee depot maintenance operations. These joint forums include the DDMC as well as the Joint Logistics Commanders (JLC) and the Joint Policy Coordinating Group for Depot Maintenance (JPCG-DM). This framework provides for effective integrated management of DoD depot maintenance. While the JLC and the JPCG-DM are ad hoc organizations for identifying and resolving joint and interservice depot maintenance issues by mutual agreement, the DDMC, as the formal policy body for DoD depot maintenance issues, exercises the necessary authority to resolve issues when joint agreement can not easily be reached.

The DDMC provides the capstone of the integrated framework for depot maintenance management. Members of the DDMC are senior logistics managers from each Military Service, the Joint Staff, and the Defense Logistics Agency (DLA). These Service representatives ensure that DDMC initiatives are consistent with Service responsibilities.

The Department established the DDMC to integrate the management, planning, and operation of the depot maintenance function and to:

- reduce costs and improve efficiency and effectiveness of worldwide depot maintenance management and operations,
- review depot maintenance policies, systems, programs, and activities; and accomplish joint planning, monitoring, and evaluating management improvement initiatives,
- exchange information among DoD officials responsible for conduct of depot maintenance operations, and
- perform advisory duties.

In conjunction with the responsibilities outlined above, the DDMC goals include:

- accomplish strategic planning for all depot maintenance functions,
- improve capacity utilization, and eliminate redundant and duplicative facilities and capabilities in both the public and private sectors,
- standardize policies, procedures and methods,
- modernize and standardize data processing systems,
- coordinate capital investment strategy, and
- initiate management actions to reduce cost of ownership of weapon systems.

While the above objectives and goals speak to the general responsibilities of the DDMC, the Council has been specifically charged with management of significant workload transfers. Consistent with direction from the 1995 Base Closure and Realignment Commission, the DDMC has decision authority regarding the transfer of workloads generated as a result of closure and realignment decisions and is exercising that authority for depot maintenance workloads at San Antonio Air Logistics Center (ALC) and Sacramento ALC. The Department is committed to effectively utilizing the DDMC and the other joint-Service forums to provide the integrated management effort that will ensure that depot maintenance operations are effective and efficient.

The *Defense Logistics Strategic Plan* (DLSP) was initially published in 1994 and updated in a 1995 version. The DLSP was developed with inputs from the Services, Defense Agencies, and the Joint Staff. It provides high level vision, guiding principles, and assumptions about the future as well as specific goals, objectives, and strategies for implementation. With this Department-level guidance, the Services perform their respective strategic planning and reflect this in their Program Objective Memorandum (POM) inputs. The POM is then reviewed by the Department for consistency with the DLSP. The DLSP vision is a logistics system of the future that provides reliable, flexible, cost-effective and prompt logistics support, information, and services to the warfighters while achieving a lean infrastructure. This is to be accomplished by making selective investments in technology, training, process reengineering, and by employing the most successful commercial and government sources and practices with a precise, agile response, instead of mass.

The DDMC supports the goals, objectives, and strategies of DLSP through plans to improve depot maintenance performance and flexibility. The DDMC also reports the current progress on depot maintenance strategies and plans in the *DDMC Business Plan*. The *DDMC Business Plan* provides an overview of depot maintenance management that focuses on the Services' implementation of OSD depot maintenance policies, base realignment and closure actions, and rightsizing the depot maintenance infrastructure. The Plan reflects the integrated management approach the Department is bringing to the management of its depot maintenance operations. The current *DDMC Business Plan* covers the period 1995-1999 and describes the continuing joint-Service initiatives for managing the organic depot maintenance industrial base during the remainder of the 1990s and beyond. It also describes strategies and plans for future depot maintenance management actions to implement recent BRAC decisions and OSD policies. The strategies and initiatives outlined in the Plan are to be considered as transitory in nature, as they are still evolving and will inevitably be impacted as other changes occur in OSD. As is the case in the current version of the Plan, future editions will reflect the progress made by the

Services in implementing the various decisions and changes in the strategies which are disseminated to the DoD depot maintenance community.

POLICY: Use a single joint-Service organization to assist in depot maintenance planning, analyze workload decisions, and facilitate interservicing.

DoD has established and supported a joint-Service organization, the Joint Depot Maintenance Analysis Group (JDMAG), that principally supports the depot maintenance planning functions of the Military Departments and the Defense Agencies. The principal focus of this organization includes:

- performing studies to assign depot workloads,
- conducting integrated business planning, and
- facilitating technology and environmental information exchange to improve depot maintenance efficiency, economy, and productivity.

The Defense Depot Maintenance Council (DDMC) uses the JDMAG to support many of its interests and initiatives. Using this approach, the DDMC and DoD have been able to develop improved coordination and reviews of depot maintenance policies, procedures, methods, and philosophies. This organization will continue to coordinate and support initiatives sponsored by the DDMC, including publication of business plans and joint progress reporting of strategies and plans for future management as well as budget, workload, capacity, and personnel information.

POLICY: Make "best value" a primary consideration in satisfying workload requirements other than those necessary to sustain CORE capabilities.

Once the minimum workload needed to preserve DoD CORE depot capability is determined (an ongoing process revisited at least biennially), the remaining workload must be accomplished such that the DoD attains best value. This involves consideration of not only commercial sources of repair, but economic use of organic capacity (i.e., efficient peacetime use of those capabilities established to support CORE capability requirements). It can also involve having organic depots compete with private sector firms when it is determined there is not adequate competition from private sector firms alone.

DoD will pursue best value logistics support by using commercial practices to the maximum extent practicable. Organic facilities may also serve as exporters of improved maintenance business practices to other organic or contract providers. The objective is to take advantage of best commercial practice approaches, processes, and technology. This provides the opportunity to look beyond the lowest apparent cost for logistics support and to seek new ways of meeting the warfighters' needs while reducing resource expenditures. For example, a company's development of improved repair processes may produce repairs that significantly extend the service life of weapon systems. Best value will consider a contractor's past excellent performance, this being a good indicator of risk associated with new bids. Best value may also include factors such as reduced schedules for repair turn around times, reduced pipeline costs, alternative replacement of parts, or other changes focused on providing a more effective end result. Best value considerations are not limited to private sector support. Organic depot facilities may constitute best value providers in certain circumstances. Examples include accomplishing related workload to efficiently utilize CORE capabilities, taking advantage of improved repair technologies, providing capability when there are no viable sources in the private sector, and participating in competitions because of limited private sector sources. The Department also strives to achieve best value through activities such as interservicing workloads and joint-Service contracting.

Thus, the method of providing logistics support shall not be constrained to the historical support approaches. For example, support concepts may include evaluation of contractor provided, long-term, total logistics support. This approach is not limited to depot-level maintenance, but also includes flexibility to make cost reducing configuration changes and to provide best value approaches to wholesale and selected retail materiel management functions.

POLICY: Pursue initiatives to reduce depot maintenance costs as a contributor to the life cycle cost of weapon systems.

The Department is taking aggressive action to control the depot maintenance contribution to the life cycle cost of weapon systems. Depot maintenance and the related elements of materiel management, transportation, and sustaining engineering are all part of life cycle logistics support. The costs associated with these efforts cannot be addressed in isolation due to their interactive nature. The Department has established policies, procedures, and programs to minimize the overall cost of weapon system ownership. A reduction in unnecessary organic infrastructure, obtainable only through removal of restrictive legislation, is key to realizing this policy.

Total costs of depot maintenance are being closely monitored. Steps have been taken to more accurately identify costs at the workload level to support decision making and process reengineering. Infrastructure and overhead costs are being reduced. Maintenance depots have been closed and additional depots are being closed; some are being transitioned into private sector entities. Information systems are being developed to support contemporary business processes focused on producing required outputs in more efficient ways. Privatization of workloads and facilities, where it makes sense and is consistent with military considerations, is being pursued. In addition to eliminating organic infrastructure not required to support CORE, the Department thus gains the economic benefits of private sector competition.

Other approaches being used include:

- Reliability-centered maintenance (RCM) is being applied to development and management of preventive maintenance programs for weapon systems and equipment end items.

- Maintenance engineering discipline is being applied to all phases of the life cycle of weapon systems to ensure balanced, minimum cost logistics support programs.

- Efficiency and effectiveness of maintenance at all levels is being enhanced through the use of such new technologies as artificial intelligence and expert systems. Productivity-enhancing measures are being used at all levels of maintenance as a way of maximizing support of weapon systems while minimizing cost.

- Contractor maintenance support to equipment and weapons systems for deployed forces is being coordinated with other DoD Components operating the same equipment and weapon systems in the same operational area, whenever practical.

- Unneeded maintenance capacity is being eliminated or put into a lay-away status, whichever is more cost effective, consistent with national security considerations.

- Business process reengineering is being used to introduce contemporary business practices and realize the efficiencies that process change can bring.

- Converting workshops to a cellular arrangement which brings the resources needed to repair an item or range of items into one location.

- Pollution prevention and hazardous material reductions are being implemented which produce savings in materials handling, personal protective equipment, and hazardous waste disposal

In a recent study commissioned by the Department, reliability improvement was identified as the area of highest potential for obtaining reductions in cost of ownership of weapon systems. The reliability of systems and components is a major factor in the cost of the DoD maintenance system. It affects mission capability, repair frequency, facilitization, technician training, spares procurements, and a host of other factors. It is essential, therefore, for the logistics support process to improve the reliability and maintainability of components. The Department recognized the need for a basic redesign of the reliability improvement process to provide an effective implementation structure to include needed identification, evaluation, funding, and execution.

Realizing that implementation of cost reducing reliability improvements often falls outside the arena of traditional depot maintenance funding, DoD is focusing specific funds on such improvements through a dedicated program. The study noted that numerous programs currently exist within DoD. Nonetheless, the Department believes that there are a substantial number of potential investments with high payback in savings that are outside the scope of these existing programs. In response to this situation, the Department is establishing a new dedicated Depot Maintenance Reliability Program in the current budget submission with an initial annual funding level of $90 million in 1997. Such a program will not only reduce depot maintenance costs, but will also help control total life cycle costs for current weapon systems and equipment.

POLICY: Establish a process which assures integrated decisions when assigning workload or committing resources to establish depot maintenance capabilities.

Logistics support concepts are defined early in the weapon system design process and are refined throughout the development process. The objective is to attain the lowest life cycle cost while ensuring required availability of the weapon system to the warfighter. Selecting the source of depot-level support is one part of this planning process. In order to manage risk associated with maintenance of a mission critical system or subsystem(s), the associated depot workload may be designated as necessary to support CORE capabilities.

The decision on specific workloads necessary to support specific CORE capabilities will consider existing DoD sources and capabilities to determine the most cost effective approach over the weapon system or subsystem life cycle. Guidance beginning with the Secretary of Defense's February 1994 acquisition reform mandate is being provided to this end. DoD Instruction (DoDI) 5000.2, *Defense Acquisition Management Policies and Procedures*, was cancelled March 15, 1996 and replaced by DoD Regulation (DoDR) 5000.2-R, *Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information Systems (MAIS) Acquisition Programs*. The new regulation provides additional emphasis on such best value solutions and requires review at appropriate management levels during the acquisition process.

Specifically, the Department uses an acquisition Decision Logic Process encompassing readiness, sustainability, and economic factors as the basis for dividing the workload allocation between private sector sources and organic facilities. Inherent in the Department's revised approach to establishing depot maintenance support capabilities, is a new philosophy that precludes automatically acquiring organic depot capability for new weapon systems. The revised approach includes the following tenets:

- Consistent with the CORE concept, only when there is a proven and compelling need for readiness, sustainability, or technology risk reduction, will an organic capability be established.
- Weapon system acquisition strategy includes, as an essential component, the consideration of private sector versus organic maintenance in the maintenance concept.
- Depot maintenance strategy review is required as part of each new weapon system's milestone decisions. The depot strategy review includes not only the weapon system platforms, but the individual commodities (e.g., propulsion, electronics, etc.) that will be subjected to depot support during the system's life cycle.
- Reexamination of the depot maintenance strategies of weapon systems as they progress in the acquisition process takes place. As underlying circumstances change during the course of a program, the validity of the initial depot maintenance strategy must be reevaluated.

POLICY: ***Use evaluation procedures for depot maintenance workload competitions that provide, in the case of private sector competitions, comparable costs for all competitors, and in the case of public sector - private sector competitions, comparable as well as comprehensive costs for the public sector.***

Although wholesale public/private cost competitions have been discontinued (based on the inherent differences between the sectors that make comparison very difficult), DoD believes there is a role for selective competitions to ensure the Department achieves its goals of best value for competed workloads. For workloads not required to sustain CORE capabilities, competition within the private sector should provide DoD with best value depot maintenance support in instances where a viable and robust competitive base of companies exists. In those cases where there is inadequate competition within the private sector, public sector organic depots may compete to ensure that DoD achieves the economies and efficiencies of competition for maintenance of military materiel. Under these circumstances public/private competition is warrented even though DoD internal cost accounting systems are not always entirely adequate to ensure a truly equivalent comparison.[5]

The Department's goal is to ensure that competitions for depot maintenance workloads result in best value outcomes. The policy statement outlined above, reflects DoD's commitment to achieving best value. The Department endeavors to ensure that private sector bids fully disclose the costs to perform the work required. In those cases where the public sector competes for workload, DoD also will endeavor to identify all costs relevant to the organic depot bid and will make the necessary adjustments to ensure comparability with any private sector bid. In recent years, DoD has stressed the importance of infusing the depots with the benefits of private sector business management practices, including financial management processes. The Department continues to work on its depot maintenance financial processes to make them more business-like and to reflect full and accurate costs.

Section 2470 of Title 10, U.S.C., states that a DoD depot-level activity shall be eligible to compete for the performance of any depot-level maintenance and repair workload of a Federal Agency for which competitive procedures are used to select the entity to perform the workload. This guidance results in organic depots being in direct competition with private sector firms. While DoD is undergoing downsizing, it is not appropriate for Department organic depot maintenance facilities to compete on a wholesale basis for other Federal Agency depot-level workloads. Any workloads competed for must, however, be supportive of maintaining DoD CORE capabilities. If such competitions are won by the DoD depot, the impact of the new workload on sustaining the winning depot's CORE capability must be analyzed. Where appropriate, workloads displaced from CORE sustainment by the new workload will then be reviewed for redistribution to other depots to support their CORE capabilities and/or for possible outsourcing to the extent they exceed CORE requirements. Again, for DoD depot-level activities to compete for workloads governed by these procedures, the Defense Finance and Accounting Service (DFAS) must certify that a cost accounting system, or other manual means, is available within the activity to identify and track official accounting costs associated with the workload.

[5] *Depot Maintenance Public Versus Private Competition Report*, Coopers & Lybrand, prepared for the Deputy Under Secretary of Defense (Logistics), March 1995

POLICY: Provide for access to adequate technical data for depot maintenance and to support full and open competition for depot maintenance workloads; seek to use contemporary information technology for access to technical data with the objectives of providing adequate, up-to-date, usable, and affordable data.

Access to technical data is extremely important to depot maintenance business management. DoDR 5000.2-R, March 15, 1996, provides technical data guidance for weapon systems development and major modifications. The new regulation states that all new contracts shall require on-line access to technical data in digital form, unless it clearly evident that doing so would not be cost effective. This application of computer-aided information technologies will improve life cycle support of defense systems and equipment by improving the quality, accessibility, and currency of data available to the provider of depot maintenance.

Technical data for the organic or potential commercial maintenance providers must be of adequate scope for the purpose, describe the up-to-date configuration of the system or equipment as deployed in the inventory, be usable, and be accessible. Efficiency in maintaining quality technical data is important because of its cost and problems with currentness due to rapid changes in system configuration. Information technology integrated with the weapon system design and configuration control processes, creates an opportunity to efficiently maintain the quality data needed to repair or reprocure fielded weapon systems, subsystems, and components. Use of international and commercial standards is an important step in improving technical data accessibility for the depot maintenance community. In addition to accessibility and currency of data, there is a vital need for the data to be efficient for the maintenance community to use. The overall objective is to affordably achieve access to quality technical data that is usable by the maintenance provider and that will support full and open competition of appropriate depot maintenance workload. This is a critical strategy not only for the depot maintenance program, but throughout the life cycle from acquisition through operations and support.

Within the limits of FAR 6.3[6], DoDR 5000.2-R requires the acquisition strategies for all new programs to provide for competition in all weapon system life-cycle phases. The availability of technical data suitable for follow-on competitive contracting constitutes a cornerstone in the DoD's program to achieve best value in depot maintenance services, and must be considered in any outsourcing analysis. In some cases, organic depots rely upon proprietary data that may not be releasable under existing agreements. In these cases, the in-depth data analysis required to determine the exact status of proprietary data ownership and Government Purpose Licensing Rights (GPLR) for each item being repaired must be accomplished during the workload selection process. In the case of closing depots, if the workload is transitioned into private sector entities, a determination is needed on whether or not the GPLR can be transferred to the contractor for use in accomplishing the Government workload. In other cases, organic depots are using data that is incomplete and, therefore, not suitable for inclusion in a statement of work. In these cases, the cost impact of obtaining contractible data must be considered.

[6] Federal Acquisition Regulation, Part 6.3, Other Than Full and Open Competition

POLICY: Ensure that effective quality management is practiced in both public and private sector operations that support DoD depot maintenance.

As outlined in the Department's input on quality to the 1994 Defense Science Board Task Force on Depot Maintenance Management, DoD considers quality to be an essential element in all its depot maintenance operations. The Department defines quality as the degree of excellence which is a prerequisite condition of work as articulated by the acquisition authority through technical requirements, specifications, and standards.

The Department's current initiatives for reducing the cost of quality assurance in acquisition also have application to depot maintenance. The use of the ISO 9000 series documents to replace the principal quality military specifications, MIL-Q-9858 and MIL-I-45208, in DoD requirements, allows private sector operations that support depot maintenance, to have one quality standard within their company for DoD and commercial customers. This approach transitions to performance requirements that reduce the "how to" to focus on the "what" of the DoD requirement. This change will have a positive effect on both overhead and direct costs.

Both organic and private sector commercial firms performing depot maintenance are required to maintain internal quality control programs. These programs range in size and complexity, and vary by commodity types as much as they do between public and private sectors. However, most include internal inspectors; programs for ensuring the knowledge, skills, and abilities of the workforce (employee certification programs, training programs, apprentice programs, and others); and formal product testing, inspecting, and random sampling programs. Additionally, private industry providers have formal programs for monitoring the work of subcontractors to ensure the work also conforms to the prime contractor's requirements.

In addition to the internal quality control programs, both sectors have external quality control programs. Private sector depot maintenance operations receive quality assurance surveillance by the Government - usually Defense Contract Management Command inspectors. The equivalent within public depots are GAO and/or Service or DoD Inspector General organization audits/studies, as well as higher command inspections of the depot quality program.

Public sector depot operations have directly applied identical or similar requirements and/or specifications that the Government requires of industry. For organic depot maintenance, the Department will transition to the ISO 9000 series on a timetable consistent with current acquisition reform milestones.

Current quality assurance practices have evolved to embrace contemporary quality management theory (e.g., Total Quality Management), and will continue to be shaped by leading edge business practices. It is the Department's goal to provide effective quality management of its depot maintenance operations in the most cost effective manner possible.

POLICY: Establish and monitor performance metrics for both organic and contract depot maintenance operations.

Performance metrics are tools used by managers to measure progress towards established goals. They provide management a way of gathering information which enhances the ability to focus on actions which affect cost, quality and schedule and workforce morale. Performance measures must be timely, accurate, standard, and visible to the entire organization. For depot maintenance, the Department ensures that metrics are established and used at all levels of operations management.

Effective indicators are easy to understand and measure key processes and results. They are carefully constructed so as not to encourage unintended behavior. Indicators showing trends over time provide better information than single data points and are normally evaluated in relationship to other information. Contemporary managers rarely depend entirely on financial ratios; they also measure, track and evaluate productive output, schedule, performance, customer satisfaction, and quality indicators as well.

Based on direction from the Defense Depot Maintenance Council (DDMC), the DoD Components have established and maintained an approved performance measurement system - the Depot Maintenance Operations Indicators (DMOI) - for all organic maintenance depots. Total Quality Management (TQM) and the Theory of Constraints (TOC) are two of the management theories that underlie the current set of DoD depot performance indicators. TQM stresses the need to build quality into every step of each process and to strive for continuous improvement. TOC focuses upon system wide improvements through improved management of process constraints. The information contained in the reporting system includes data for indicators such as: throughput and operating expense, capital investment effectiveness, schedule, process days, net operating result, and labor hour cost. Additionally, for its organic depot maintenance operations, the standard approved method for measuring capacity and utilization in DoD depots is based on work stations being used on a single shift, forty hour work week basis. The purpose of capacity and utilization measurement is to promote more cost effective use of DoD organic maintenance facilities. This methodology was reviewed during the Department's deliberations for the FY 1995 Base Closure and Realignment Commission. It was accepted by all the authorities that were officially designated to review base realignment and closure recommendations. These and other performance indicators continue to be evaluated for usefulness and validity. The schedule calls for reporting of most quarterly performance metrics on a semi-annual basis, and it is planned that these indicators will be included in an automated Enterprise Information System (EIS) which may be updated more frequently.

The Military Components and DLA have established internal performance metrics and tracking systems to provide performance monitoring of their depot maintenance operations. These metrics and systems are tailored to the operations and support concepts of specific requirements. Nonetheless, all of the Components and DLA report basic metrics to the highest levels of DoD management. DoD recognizes that sound management principles require that indicators be constructed of the same data from the bottom up. Valid measures at the bottom of the organization may not be of consequence at the top; conversely, what may be applicable at the top may be too broad and general to be of use at the bottom. The key is to aggregate performance data at increasing levels and present it in a manner that the transition from data points to trends is smooth. This aggregation approach provides a "drill down" capability for

top management such as DDMC members to use in assessing trends as a predictor of future performance, and yet when needed, provides details about single facets of the organization. The Department is committed to establishing additional reasonable and meaningful metrics for logistics managers to use in assessing private sector depot maintenance providers - in terms of cost, levels of effort, and performance.

The Department requires performance metrics and measurement in accordance with sound management principles. DoD is aware, as well, of requirements such as the Chief Financial Officers (CFO) Act and the Government Performance and Results Act (GPRA). The CFO Act mandates that chief financial officers in each agency develop an integrated agency accounting and financial measurement system which provides for the systematic measurement of performance. The depot maintenance community is working with the DoD Comptroller to support the requirements of the CFO Act and is including effectiveness as well as cost per output goals in its resource management processes. The GPRA holds Federal agencies accountable for satisfying customers, for establishing goals, developing performance budgets, improving service delivery, enhancing quality, and lowering costs. It calls for varying levels of planning and performance measurement in relation to plans. As indicated in this report, strategic and performance planning are inherent in the management of DoD depot maintenance operations; measurement against plans is continuing to evolve. Existing depot maintenance performance indicators will be changed and new indicators developed consistent with the direction provided by the GPRA. In summary, depot maintenance operations are managed consistent with the CFO Act, the GPRA, and with other statutory requirements focused on improving the management of Federal Government operations.

SECTION IV
PUBLIC SECTOR BUSINESS MANAGEMENT

POLICIES: Provide the necessary resources for depot maintenance, ensuring a consistent approach to satisfying depot maintenance requirements from all sources.

Review current year and unexecuted prior year capital investment plans annually to ensure consistency with evolving CORE (and other valid organic) requirements.

The process for providing resources for accomplishment of depot maintenance is the same process used for all programs managed within DoD. This process includes issuance of Program Objective Memorandum (POM) Preparation Instructions, Defense Resource Board (DRB) review of the Departments' POM submissions, POM decisions, budget preparation instructions, and budget reviews by the Comptroller and other staff offices. During each of the stages, the objectives include providing guidance, providing necessary resources and ensuring a consistent approach to satisfying requirements. The Deputy Under Secretary of Defense for Logistics (DUSD(L)) sets resourcing direction and reviews Service plans. The DUSD(L) advocates valid resource requirements for depot maintenance throughout the planning, programming, and budgeting processes.

The requirements for capital investments are initially determined by source of repair decisions and the need to provide/sustain CORE capabilities. The Department reviews capital investment plans using a number of different approaches. Each Military Service, of course, has an internal process for capital investment planning as directed by the DoD Comptroller. Such planning includes both facilities and equipment. These plans are reviewed at various levels within each Service prior to being included in their budget. Depot maintenance facility requirements are further reviewed by a joint-Service group under the auspices of the Defense Depot Maintenance Council (DDMC) to ensure that unnecessary duplication is avoided. Finally, during the budget review process, the DUSD(L) provides the necessary functional level review of all depot maintenance capital investment planning.

The Department endeavors to keep depot maintenance capital investments to the minimum necessary for establishing and maintaining robust, technologically proficient CORE capabilities. As the Department goes through force structure reductions, contingency scenarios changes, base and facility closings, and maintenance concept evolution, logistics managers must review current and unexecuted past capital investment plans to ensure continuing need in view of changed requirements.

POLICIES: Establish financial management processes that provide accurate and comprehensive reporting of depot maintenance efforts at both the macro and workload levels.

Establish appropriate internal management controls to ensure the protection of resources and the integrity of management information and workload data.

Develop effective means to compare costs for organic depot maintenance with costs in the private sector.

The Department is working to establish proper and effective financial management processes. There is full recognition of the need to accurately account for all costs and effectively apply costs at the workload level - to validate the integrity of the financial accounting system. The depot maintenance community is actively engaged in identifying the changes needed to make financial management practices more business-like.

Currently, each DoD Component has its own depot maintenance financial management system. Under the direction of the Defense Finance and Accounting Service (DFAS), the Department is in the process of selecting the best system for each Component and taking the actions necessary to ensure that these systems fulfill the necessary functionality, as well as provide for compliance with the Chief Financial Officer's Act. It is intended that, in addition to DFAS requirements, the updated depot maintenance cost accounting systems will meet the following requirements:

- Provide both unit cost data and annual cost of work completed data.
- Identify and capture organic, interservicing, and contract (to include contractor logistics support (CLS), interim contractor support (ICS), and program manager funded requirements) depot maintenance cost data from all appropriation funding sources (e.g., operations and maintenance, procurement, and DBOF).
- Use standard data elements and provide standard reports.
- Provide data roll-ups for Service Headquarters and OSD usage, as well as drill down query capability for higher management levels.

All of these systems are subject to audit/review by the Department Inspector General and the General Accounting Office.

The establishment of proper internal management controls and integrity of data must initially be incorporated into systems design. Internal and external audits of depot maintenance operations, as reflected by financial management information, ensure the existence of internal controls, the validity of data input into systems, and the integrity of subsequent system information.

The Department continues to strive to develop a means to compare organic costs for depot maintenance with costs in the private sector for those limited situations where there is not adequate competition in the private sector. To this end the Defense Depot Maintenance Council (DDMC) sponsored a committee that developed and published the *Cost Comparability Handbook*. However, even when the Department is able to establish proper and effective

financial processes, the number of competitions will remain limited because the inherent differences between the public and private sectors make comparison very difficult. The Department will continue working on developing comparable costing methods and enhancing the *Cost Comparability Handbook* so that DoD depot maintenance operations can at least be compared or benchmarked with the private sector when appropriate. Additionally, the Department is interested in exploring management accounting approaches, such as activity-based costing (ABC), which may provide improved capabilities for product costing. ABC can support DoD efforts such as process value analysis and strategic planning for overhead functions; it can provide managers with more meaningful information with which to judge the efficacy of management decisions. Other concepts such as earned value performance measurement are being looked at to help determine the true value of specific project cost performance. Used in conjunction with other available management tools (such as those capabilities being provided in the depot maintenance management information systems be developed by the Joint Logistics Systems Center), the earned value concept, which compares planned values with earned values and actual costs, may make substantial contributions to the ability of the depot maintenance community to operate more cost effectively.

POLICY: Ensure that organic depots can compete with private sector sources of repair when there does not appear to be adequate competition for specific DoD workloads within the private sector; restrict from any such competitions those organic depots that are being closed.

In some situations there is inadequate interest or capability in the private sector to fully realize the benefits of competition. For example, the technology in a DoD system may be too old or unique for there to be more than one commercial source of repair. Or, there may be advanced technology requirements or technical data limitations that preclude broad-based private sector interest. In these situations, the Department's limited options can include paying the sole source price or generating the competition from within the DoD depot structure.

The Department will pursue such competition when it is reasonable to expect it to produce savings and not jeopardize performance of CORE capability requirements. Title 10, U.S.C., Section 2469 requires such competitions to change from an organic source of depot-level maintenance and repair workloads to a commercial source for workloads in excess of $3 million. Other statutory requirements require that an effective cost accounting method be available to identify and track costs associated with the workload. Department policy is consistent with these requirements. However, the Department will attempt to ensure the benefits of competition for all workloads not required to sustain CORE capabilities, regardless of value.

The Department is taking action to provide improved financial management processes to more effectively operate organic depots. The resulting processes and systems should be capable of supporting public versus private competition in those cases where there is inadequate private sector competition, and where they meet the associated Title 10 requirements. DoD will continue, however, to size its organic infrastructure in relation to CORE capability requirements. When workloads are won competitively by organic depots, that workload will be carefully evaluated as to its abilities to sustain required CORE capabilities so that other workloads no longer required to sustain CORE, may be relocated to other DoD depots or outsourced.

Similarly, depots that are in the process of closing are restricted from competing for any new workloads. The Secretary of Defense has encouraged the Chairman of the Joint Chiefs of Staff, the Secretaries of the Military Departments, and the Directors of the Defense Agencies to maintain only essential operational demands on closing bases. The Secretary of Defense indicated that closing bases should not be assigned or allowed to compete for new functions or workloads except as approved by the Service Chiefs (without redelegation authority). Once selected for closure, drawing down the mission and closing the base must become the major function of commanders and managers.

POLICY: Permit organic depots to sell services and goods, when appropriate, to other Federal Agencies and the private sector in support of DoD requirements.

The Department has enabled organic depots to sell goods and services to other Federal agencies and the private sector as permitted by Title 10, USC. The following articles provide this authority:

- 10 USC 2208h - Permits goods to be sold or services rendered to persons outside DoD.
- 10 USC 2470 - Permits depots to compete for workload of Federal agencies.
- 10 USC 2471 - Permits the leasing of excess organic equipment and facilities to a person outside of DoD.
- 10 USC 2553 - Allows sale, to persons outside of DoD, of articles and services that are not available from any U.S. commercial source.
- 10 USC 4532 - Mandates that the Secretary of the Army will have supplies, needed for the Department of the Army, made in factories and arsenals owned by the U.S.
- 10 USC 4543 - Based on Article 2208, provides provisions for Army industrial facilities that manufacture large caliber cannons, gun mounts, recoil mechanisms, ammunition, munitions, or components thereof, to sell manufactured articles or services to a person outside of DoD.

Specifically, DoD policy for use of 10 USC 2553 (considered the key article) by the depots is that: the Defense Finance and Accounting Service (DFAS) must certify that the depot accounting system can track costs; prices must be established under existing DoD guidance; the Secretary of the Military Department must certify that statutory conditions have been met; and the article or service is not available from a U.S. source. Additionally, the workload must be compatible with CORE capabilities and not disturb overriding requirements to reduce depot infrastructure cost commensurate with downsizing activities.

Examples of services and goods that organic depots have executed using the above articles are:

- Testing new manufactured AH-64 transmissions for Purdy Corporation.
- Manufacture of Flexible Engine Diagnostic Systems (FEDS) for ATCOM.
- Application of vacuum deposited aluminum electro-magnetic interference (EMI) coating to battery boxes for UNICOR.
- Repair and test recalled T700-GE-401 turbine engines for General Electric.

The Department is currently reviewing internal policy and guidance documents to ensure the benefits permitted by the above Title 10 articles are optimized.

POLICY: Use merit-based procedures to determine the best organic source for CORE-related and other approved workloads.

Current Department policy is that depot maintenance source of repair assignments shall be made by the acquiring DoD Component logistics head using the depot source of repair assignment decision logic process. This decision shall be made by Milestone III, Production Approval, or a time phased action plan for reaching that decision will be developed.

The goal is to only assign workloads to public sector facilities that support CORE capability requirements, and that those workloads assigned to the public sector, be performed at the depot with the most cost effective capability.

Determining the best source of repair is a two step process. The first step is the organic versus contract decision. The Services historically have used a decision tree analysis that considered mission essentiality, cost, and risk as principal factors in making this decision. The Services are now implementing a recently approved policy which focuses on an enhanced CORE methodology for determining workloads appropriate for sustaining required organic sources of repair. This CORE methodology focuses on identifying maintenance and repair capabilities necessary to meet CORE capability requirements. CORE requirements include the capabilities for meeting essential wartime surge, promoting competition, and sustaining institutional expertise. Capability and capacity within the private sector are also carefully considered through risk and industrial base analyses.

The second step of the source of repair decision is the determination of the most appropriate organic source, once it is determined that the workload must be performed in the public sector. This selection process depends on use of merit-based selection procedures. Depending on the type of workload being assigned, several procedures are available. Current policy requires that a source of repair analysis be conducted for any new item of equipment coming into the inventory that requires depot maintenance, a change to an existing assignment, or when an additional investment is required that is more than $250,000.

For specific weapon systems or equipment, the Depot Maintenance Interservicing (DMI) process has been developed. Features include screening for existing capability, identifying candidate depots, estimating non-recurring (investment) and recurring (operating) costs, considering previous experience with similar workloads, and coordinating a joint-Service decision.

For large workload groupings or commodity-level reassignments, a joint interservicing methodology has been developed. Features include selection of alternatives, cost comparison, a personnel analysis, and application of military value and readiness impacts.

POLICY: Use environmentally sound practices and procedures; minimize use of hazardous materials; remediate contaminated sites; plan, program and budget for environmentally sound facilities, equipment, and processes.

The industrial activities at DoD organic depot maintenance facilities constitute a major, if not the largest, source of hazardous and solid waste and other pollutants generated in the DoD. Environmental stewardship makes good business sense and is not just the responsibility of the environmental management function. Use of pollution prevention through source reduction techniques in the depot repair process can eliminate waste before it becomes a disposal problem. In recognition of this fact, the Department has adopted the following environmental strategy to guide future actions in pollution prevention:

> Depot maintenance management will sustain continuous improvement toward a goal of protecting the environment by eliminating pollutants, and promoting cultural change to instill an environmental ethic throughout the depot maintenance community.

This strategy recognizes the goal of sustained continuous improvement for environmental protection as a normal part of the maintenance management process. Managers must maintain control over existing processes, improve them, and ensure that new processes are not implemented unless they are environmentally sound. It recognizes the need to eliminate pollutants, which are defined as all categories of hazardous material (HAZMAT) built into a product or used to repair it, toxic releases resulting from the repair process, and non-toxic waste determined to be detrimental to the environment. As such, these pollutants must be eliminated or reduced at the source where feasible. It also recognizes the need to promote a cultural change to instill an environmental ethic by continuous education and training to ensure maintenance activities are carried out in an environmentally conscious manner.

The goal of protecting the environment has been separated into two discrete objectives: (1) eliminate pollutants, and (2) promote a cultural change to instill an environmental ethic. To eliminate pollutants, DoD will use existing technology where available, and fund RDT&E where no appropriate alternatives exist. Depots apply new and emerging technology to effect environmentally safe material substitutions and individual process changes for improved air emission control, hazardous and solid waste reduction, and reduction of soil and water contaminants. In addition to environmental benefits, pollution prevention investments in new technology often produce benefits in product quality, operational effectiveness and life cycle cost. To facilitate the cultural change to instill an environmental ethic, employees and management will be provided formal and informal training to promote environmental awareness of responsibility and compliance with the DoD strategy.

Should the Department close, sell, donate or operate as a government owned contractor operated (GOCO) depot maintenance facility, the environmental restoration liability for that facility must be explicitly addressed. Given the extent of contamination at some depots , current provisions of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) essentially preclude transfer by deed unless the facility has been certified by federal, state, and local authorities as meeting their environmental requirements, or there is an ongoing environmental remediation program that the Environmental Protection Agency (EPA) has certified will result in the required level of cleanup for the property.

POLICY: Deploy management information systems (including financial management) that contribute to more effective and less costly depot maintenance operations.

Maintenance management information systems are being established and operated to manage maintenance workloads and provide asset visibility; to facilitate maintenance diagnostics; and to collect total costs, equipment reliability, availability, and maintainability data, maintenance work force performance data, and costs on all primary weapons or equipment end items.

The Joint Logistics Systems Center (JLSC) was established to develop standard logistics management information systems for use throughout the DoD logistics support structure. Objectives include:

- minimizing duplication and enhancing DoD's information systems,
- tying DoD together through the use of common shared data,
- reinventing and reengineering DoD logistics and support operations, and
- implementing systems which use worldwide computer and communications infrastructure.

The Department has undertaken initiatives within the depot maintenance community which include selection and implementation of standard migration management information systems to support implementation of "best business practices," and achievement of standard data - to the extent reasonable - for DoD depot maintenance.

In general, maintenance management information systems are being established to:

- Manage maintenance workloads and provide asset visibility.
- Facilitate maintenance diagnostics.
- Collect data on:
 - Total costs
 - Equipment reliability
 - Availability
 - Maintainability
 - Maintenance workforce performance
 - Costs on all primary weapon systems and/or equipment end items

The major depot management information systems being deployed are :

- The Depot Maintenance Management Information System (DMMIS) and the Commercial-Off-the-Shelf Manufacturing Resource Planning (COTS MRP II) module, which will provide enhanced production management capabilities for the repair, remanufacturing and/or overhaul of DoD's commodity workloads. DMMIS and COTS MRP II form the heart of the reparables management systems capability.

- The Baseline Advanced Industrial Management (BAIM) and the Programmed Depot Maintenance Scheduling System (PDMSS) provide the core of DoD's project (end items) management capability. Specifics include: providing a flexible, configuration-based, work breakdown structure (WBS) enabling depot project managers to plan, monitor,

and control consistent with their execution strategies; providing on-line technical information for use in depot maintenance and repair; and the ability to reuse planning and technical information.

In addition to the above, a number of essential automated information systems provide linkage between, or support for, the project management and reparables management systems. These systems include:

- The Tool Inventory Management Application (TIMA) increases the efficiency of depot tool rooms by improving, standardizing, and automating the tool management process. TIMA is a commercial software package.

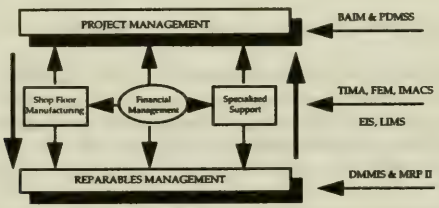
- The Facilities and Equipment Maintenance (FEM) system will support the management of depot facilities, equipment, and related resources. FEM, a commercial software package, will provide the facility and equipment functionality for the depot maintenance environment.

- The Interservice Material Accounting and Control System (IMACS) application supports the interservice support agreement process. Essential functional objectives include the automation of activities performed in negotiating and administering Depot Maintenance Interservice Support Agreements (DMISAs), and providing visibility and tracking capability for DMISA assets.

- The Enterprise Information System (EIS) enhances depot management by concisely summarizing depot information in an easy-to-understand format, and will provide the decision support functionality for the depot maintenance business operating area.

- The Laboratory Information Management System (LIMS) will enable automated tracking and archiving for depot material samples and test results.

The interrelationships of the above automated information systems are depicted in the illustration below.



The deployment of these systems will contribute to more effective and less costly depot maintenance operations. The Department continues to stress the importance of the systems coming on-line in a timely and efficient manner.

Additionally, the depot maintenance community is standardizing the financial management systems used by the Military Services to support depot maintenance operations. The Defense Finance and Accounting Service (DFAS) has identified necessary enhancements to selected systems to ensure they perform in a manner to satisfy sound contemporary business practices as well as statutory requirements such as the Chief Financial Officers Act. Through standardization and upgrades of the selected systems under DFAS guidance, the Services will be provided with the financial management controls and information needed to effectively support depot maintenance operations.

POLICY: Encourage innovative maintenance concepts and practices as well as improved management structures.

The *Defense Logistics Strategic Plan* (DLSP) calls for enhanced efficiency and effectiveness of maintenance at all levels through the use of such new technologies as artificial intelligence and expert systems. Productivity-enhancing measures shall be used at all levels of maintenance as a way of maximizing support of weapon systems while minimizing cost. Furthermore, the reengineering of work processes, labor standards, and material standards has been proven to reduce costs and direct labor hours, improve schedules, and enhance quality. Therefore, the Department is promoting the reengineering of business practices in conjunction with future consolidations, transfers, and competitions of workloads. Additionally, business process reengineering is being focused on existing depot maintenance business practices to ensure that required support is provided in a manner consistent with contemporary business practices.

In addition to the foregoing, new logistics and maintenance support concepts are being explored within each of the Services. These new concepts are focused on improved, more efficient support of contemporary force employment requirements. Within each concept, there is change implications for the manner in which depot maintenance operations will be carried out. Often there is a blending of the previously, more well-defined levels of maintenance, combining field-level and depot-level maintenance requirements into integrated operations.

The Navy has traditionally operated separate facilities for intermediate and depot-level maintenance support of ships and aircraft. Although many of the Navy intermediate and depot-level maintenance capabilities are similar, there are significant differences in the type of work required by aircraft, surface ships and submarines. Accordingly, the Navy has historically utilized separate maintenance facilities for aviation, surface, and sub-surface systems. In addition, separate facilities are frequently utilized to support different subgroups of ships and aircraft. In the current era of reduced force structure and increasingly austere budgets, the Navy cannot afford to retain excess or duplicative maintenance capabilities and infrastructure and, consequently, has decided to consolidate most of their shore-based intermediate and depot maintenance facilities into eight Regional Maintenance Centers (RMCs). Each RMC will encompass several Regional Repair Centers (RRCs) which focus on specific repair processes (e.g., propulsion, electrical, and structural). The number of RRCs in each RMC will vary, depending on the specific repair requirements and capabilities in that region as documented in a RRC business case analyses. An individual RRC may or may not be co-located with other RRCs or its industrial hub. For example, calibration activities for the Mid-Atlantic region are being consolidated in facilities which were formerly occupied by the Naval Aviation Depot at Norfolk, VA, while the motor rewind work is being consolidated at Norfolk Naval Shipyard.

The Air Force has initiated their Lean Logistics approach which incorporates state-of-the-art business practices across all logistics areas. The goal of Lean Logistics is to streamline the processes and infrastructure that drive costs and investments in logistic programs. The goal is not inventory reduction per se, but better control over the release of materials for repair. As depot repair control is improved, a reduction in inventory levels and other benefits should be achievable. The objective is to move to a demand-driven replenishment system and to provide customers with parts on demand rather than basing repair inductions on forecasted requirements. Lean Logistics is designed to integrate many of the newly established concepts

and initiatives into one overall umbrella program. It incorporates several initiatives including flexible repair, pipeline visibility, door-to-door distribution, and repair-and-return, among others. Building on the success of the two-level maintenance program, Lean Logistics capitalizes on the lessons of the two-level maintenance and expands the process improvements to a greater application. It also adds the concept of a consolidated serviceable inventory (CSI) at the source of repair to the two-level maintenance principles of direct induction, fast transportation, and other process improvements. Additionally, it adds more control and involvement by the customer, a smaller base-level inventory, and a higher velocity in the movement of assets.

The Army has also developed a regional concept for sustainment maintenance (all maintenance conducted on Army equipment above the direct support level). A wide variety of Active and Reserve Component general support (GS) maintenance units, non-divisional and echelon above corps (EAC) aviation intermediate maintenance units, installation Directorate of Logistics (DOL) maintenance activities, and national-level maintenance management activities and depots perform sustainment maintenance. Specialized Repair Activities (SRAs), Forward Repair Activities (FRAs), and contractors also perform sustainment maintenance for the Army. The regional maintenance (also referred to as Integrated Sustainment Maintenance or ISM) concept focuses on centralized management and decentralized workloading of Army sustainment maintenance activities through consolidation of all sustainment maintenance activities under an integrated management structure. The goal of this effort is to maximize repair capability while providing high levels of weapon system availability at reduced costs. Through balanced resource allocation, workload distribution, and decentralized execution of maintenance work, the concept seeks to maximize repair capabilities and optimize use of available resources. Execution would be managed by and accomplished at three management levels: local, regional, and national. At the national level, a National Sustainment Maintenance Manager (NSMM), envisioned to be AMC, would integrate sustainment maintenance for the Army, both in peace and in contingencies. Also at the national level, wholesale requirements would be identified through repair/buy decisions for reparable items. With visibility of regional reparable programs and local capabilities, item managers at the national inventory control points (NICPs) would be able to review repair/buy decisions to extend utilization of assets, reduce unnecessary procurement of new assets, and maximize cost avoidance. The NSMM would manage both depot and national contract maintenance support for regional programs.

SECTION V
WORKLOAD MANAGEMENT

POLICY: Encourage interservicing (both organic and joint-contracting) of workloads and joint-Service or multi-Service solutions to issues and requirements.

As stated earlier, the Department manages CORE requirements from a DoD perspective; the integrated totality of individual Service CORE requirements equals the DoD CORE requirement. The Department's depot maintenance policy emphasizes aggressive use of interservice maintenance support whenever increased economy to the Government will result, and when such support is consistent with operational requirements. Specifically, DoD guidance requires the establishment and execution of inter-Service, intra-Service, and joint-contracting maintenance support arrangements in order to achieve the most cost effective depot maintenance support possible, consistent with readiness requirements of the Services. In addition, contractor maintenance support of equipment and weapon systems for deployed forces are coordinated with other DoD Components operating the same or similar equipment and weapon systems in the same operational area, when practical.

While the Services continue to make interservicing progress, additional opportunity to interservice exists. The objective of interservicing continues to be the accomplishment of workloads at lower cost while maintaining quality and schedule requirements. Interservicing savings accrue from facilitization and equipping avoidances as well as from economies of scale through consolidations and efficiency improvements. Progress has been made on many of the interservicing decisions outlined in the *Defense Depot Maintenance Council Business Plan*. For example, depot work of the Air Force J79 engines has been transferred to the Navy, while Navy C-130 main landing gear and TF30 gas turbine engines are supported by the Air Force. The Army has consolidated support of most of DoD's tactical missiles at Letterkenny Army Depot and has also commenced depot-level support for Marine Corps M1A1 tanks at Anniston Army Depot. Most recently, the Navy co-located depot maintenance of Air Force F404 turbine engines used in F-117 aircraft with the F/A-18 F404 engine workload at Naval Aviation Depot, Jacksonsville. In addition, the Department is single-siting virtually all major aviation airframes, engines types, and tactical missile systems. Another recent example of a significant interservice initiative is the merit-based selection of the Air Force Cryptological Repair Facility at Lackland Air Force Base to provide all National Security Agency SIGINT support. This support was formerly provided by three separate military cryptological depots. In the area of joint-contracting, the Military Components are using the Air Force contract for contract field teams to support depot maintenance operations. DoD continues to monitor interservicing levels, using the DDMC and the *Defense Depot Maintenance Council Business Plan* as key elements to maximize interservicing.

Section 2469 of Title 10, U.S.C., impacts interservicing procedures. It directs the Secretary of Defense to ensure that the performance of a depot maintenance workload that has a value of not less than $3 million and is being performed by a DoD depot-level activity, is not changed to

performance by a contractor or another DoD depot-level activity unless the change is made using:

- merit-based selection procedures for competitions among all DoD depot-level maintenance activities; or
- competitive procedures for competitions among private and public sector entities.

Accordingly, DoD currently stipulates the use of merit-based procedures for workload changes affected by this statute. For the purposes of this policy, the Department considers merit-based selection procedures to be the approved depot maintenance interservicing process. Depot-level activities (facilities) are to be considered only for workloads that are functionally within their established CORE capabilities. As part of these processes, the need to size organic depot-level activities consistent with the CORE concept must be addressed.

*POLICY: **Establish effective management systems and processes to provide visibility of assets in the repair cycle at organic or contract facilities.***

Assets in the repair cycle serve as a priority source of resupply for DoD users. DoD's requirements for visibility of these assets range from detailed data, such as estimated completion dates and condition code changes by specific stock numbers and serial numbers, to broad aggregated data, such as capacity planning information. Both logistics and operational managers require greater visibility of in-process repair assets. Logistics managers and, to a lesser degree, operational managers need information on the percentage of an order or induction quantity that is complete, the time (in days) required to complete a given number of units, and the repair/flow days by line item. They also need to know the earliest date that a unit could be completed by expedited repair, the projected repair backlogs, the reason for any backlogs (e.g., shortage of parts or inadequate maintenance capacity), and the projected completion quantities by line item and day. Operational managers require in-process data to assess capability changes that may occur as a result of assets being made serviceable. In the case of unique or specialized items, or critical items with limited availability, they may require precise data to manage effectively. In other cases, they may require only aggregate data. There is a broad range of other managers, ranging from OSD through weapon systems managers to Service materiel managers, who require in-process repair asset visibility.

The DoD Components have already developed a number of systems and processes aimed at providing visibility over the status and location of assets being repaired. They also have several other initiatives under development. As DoD moves to obtain the desired visibility of assets being repaired, it is addressing a number of fundamental issues. These issues are outlined in its documentation of the Total Asset Visibility (TAV) Program. The Department is working on systems to address items undergoing repair in both organic and contract facilities.

TAV, as implemented in the Joint Logistics (JLOG) Management Information System, will provide data that will reach across the DoD TAV requirements continuum, tying together existing databases of personnel, supplies, unit moves and equipment information, and managing theater distribution data through its own repository. Present efforts focus on bringing together the resources found in some of the more robust logistics systems. Major data sources include, but are not limited to the following:

- Defense Logistics Agency's Automatic Addressing System Center
- Logistics Information Processing System (LIPS)
- Transportation Command's Global Transportation Network (GTN)
- Army's Total Asset Visibility (ATAV) and Logistics Information File (LIF)
- Depot Maintenance Standard System (DMSS)
- Materiel Management Standard System (MMSS)

POLICY: Focus manufacturing at organic depots on near-term or low-volume DoD requirements that cannot be effectively supported from private sector sources.

The Department limits the peacetime manufacture and fabrication of parts, components, and similar items by organic depots to that necessary to satisfy critical requirements; where appropriate to take advantage of compelling cost savings during the overhaul process; or where the commercial sector is unable to provide items in a timely or economical manner, to the extent permitted by statute.

This policy serves a two-fold objective. First, it enables private sector facilities to retain workload that is normally associated with their core competencies (e.g., the design, development, and manufacture of weapon systems, components, and equipment). Manufacturing workload will assist in ensuring that industrial capabilities needed to meet national security requirements will remain available - an essential Department objective during a time in which procurement spending has dropped substantially during the last decade.

Second, it minimizes the establishment of new organic capability at a time when the depots are restructuring in order to efficiently accomplish DoD's CORE depot maintenance requirements. It would be counter-productive to retain, or worse, establish, manufacturing capabilities (personnel, equipment, and facilities) to possess non-CORE manufacturing capability.

The Department will continue to pursue initiatives that provide technology DoD can use to procure replacement parts that, for example, require low-volume production or involve the generation of unavailable technical data. The Department's flexible, computer-integrated manufacturing (FCIM) approach includes a number of initiatives focused on the integration of equipment, software, communication, human resources, and business practices within an enterprise to rapidly manufacture, repair, and deliver items on demand, with continuous improvement in the processes. FCIM initiatives include not only production capabilities, but also look at technical product and process data to better support computer-integrated manufacturing. The Department continues to refine its FCIM program to ensure that it complements CORE capability requirements and does not unnecessarily duplicate private sector capabilities.

POLICY: Accomplish weapon system modifications and upgrades in the private sector except when it is more efficient and economical to accomplish such work concurrent with other required organic depot maintenance.

Depot maintenance operations include a wide spectrum of activities such as overhaul and repair of components; programmed depot maintenance for entire weapon systems including hardware and software for ships, aircraft and tanks; modification and upgrade of systems and equipment; and, when required, battle damage repair.

Major modifications and upgrades should be accomplished primarily in the private sector. This workload is unique among the depot activities in the sense that it uses many of the same capabilities required by the commercial defense industry to design, develop, and produce new weapon systems. For this reason, modification and upgrade work provides the greatest potential to contribute to preservation of these essential skills in the private sector Defense industrial base. Expansion of organic depots into sophisticated modification and upgrade programs would deprive essential private sector manufacturers of their traditional business base at precisely the time when cutbacks in systems procurement have weakened their ability to survive. In the absence of major external threats, these cutbacks are probably unavoidable. However, new threats eventually will arise, and it is essential that an adequate industrial base for designing, developing, and producing military systems be preserved. In addition, the majority of modifications and upgrades are not, by definition, part of depot maintenance CORE capability requirements. The Government has traditionally obtained development and manufacture of kits for modifications and upgrades from the private sector. However, installation of the kits has been done in both public and private facilities. The organic depots will continue to perform low-volume, time-critical remanufacturing requirements necessary to support aging weapon systems with insufficient technical data and diminished source of supply.

Accomplishment of weapon system modifications and upgrades in the private sector, except when it is more efficient and economical to accomplish such work concurrent with other required organic depot maintenance, ensures that industrial capabilities needed to meet national security requirements will remain available.

POLICIES: Strive to match workload inductions with requirements to minimize work in-process inventories and better focus on support of valid needs.

Measure and monitor maintenance cycle times as part of total repair cycle times.

Provide accurate forecasts of materiel requirements needed to support depot maintenance workloads.

The goal of depot maintenance operations management is to have the right items being worked on at the right times. DoD is focusing business process improvements in depot maintenance production planning and induction processing, to ensure that assets undergoing maintenance, fulfill valid reparable item requirements in a timely manner. DoD is considering process changes such as increasing induction frequency, limiting funding and quantities to shorter cycles, and using current asset data to determine appropriate repair quantities. By minimizing work in process inventories, depot maintenance can be more responsive and flexible in addressing changes in demand; it can also provide more cost-effective logistics support through reductions that are thus realized in repair cycle times.

Awareness of actual maintenance cycle times as a part of the total repair cycle time is a fundamental management requirement. Such times are an essential element in evaluating the performance of repair processes in producing the right item, in the right quantity, and at the right time. The Department compares actual and standard repair cycle times, as well as component parts of these times, to evaluate depot maintenance production (organic and contractor) based on cycle time and on-time deliveries.

Lack of repair parts constitutes a consistent and often primary contributor to maintenance cycle times. This problem adversely impacts the maintenance process by necessitating the rescheduling of production, increasing the work hours and costs, and causing production inefficiencies, as well as resulting in delayed customer support. To minimize this impact, DoD is focusing on improving the process of recording piece-part consumption and forecasting parts requirements, including use of bill-of-material concepts.

SECTION VI
PRIVATE SECTOR SUPPORT

*POLICY: **Ensure that in placing workloads in the private sector, DoD receives gains that are typically made possible by the operation of market forces (e.g., reduced costs and cycle times).***

To ensure receipt of the benefits of competition, the Department will encourage full and open private sector competition whenever possible. If there is not adequate competition in the private sector, DoD will consider competition by organic depots for the specific workload(s) at issue.

The decline in acquisition of new weapon systems has spawned the growth of maintenance specialists within private industry. Large corporations have created business units, separate from their research and development organizations, to compete for airframe and aircraft component maintenance contracts. Viable competitive sources exist which can cost-effectively meet the Service's depot maintenance needs whereas, prior to the end of the Cold War, contracting out this workload primarily meant sole source contracts with the original equipment manufacturer (OEM). Privatized (formerly organic) facilities also constitute a potentially attractive contract source to address many depot maintenance requirements. Properly managed and organized, these facilities can support a wide range of requirements which normally would be accomplished in the DoD's organic facilities at potentially lower risk due to the transfer of existing government facilities, equipment, and personnel.

The key to entrusting depot workloads to any private sector source is assured response in terms of cost, quality, and schedule. Where true competition exists, these needs can be competently satisfied. While development of such sources is not fully mature, the private sector's creation of these business entities continues to evolve as the DoD provides opportunities. An orderly transition of more depot maintenance workload to these private sector sources encourages development of competitive cost-effective sources of depot maintenance. It also supports current Executive Branch direction to gradually reduce Federal sector employment and provides for growth of the private sector business base. Finally, it permits both private and public sector sources of depot maintenance to focus on their specialties and optimize their performance.

POLICY: Ensure that sound business case analyses support workloading decisions for workloads not required to sustain CORE capabilities.

Privatization of DoD depot maintenance can take many constructive forms such as outsourcing, government-owned, contractor-operated depots, and transition into private sector entities of DoD maintenance facilities. Accordingly, the Department is committed to carefully defining the alternatives available, and considering both the depot maintenance work content and requisite support structure. Within current legislative and operational constraints, privatization prototype opportunities are being identified. Measures of effectiveness and success for prototype operations are being developed. The Defense Depot Maintenance Council (DDMC) will monitor prototype operations and make recommendations for follow-on implementation. The Department will take full advantage of on-going and future depot maintenance infrastructure divestiture related to base realignment and closure activity in developing privatization prototype initiatives.

DoD will develop a standard framework for business case analyses which support privatization and outsourcing decisions. Each DoD Component will be expected to apply consistent business case analyses within the established framework. The business case analyses framework will, in addition to standard benefits and cost factors, include consideration of the readiness implications of privatization and outsourcing decisions. The readiness impact consideration is also built into the existing DoD CORE capability determination decision process. The Department is aware that the costs and benefits of depot-level maintenance and repair privatization and outsourcing must be clearly defined, and plans to have substantive initiatives validated by the DDMC. This is being done to ensure the continued availability of required support, while still driving towards affordable costs and the generation of long-term budgetary savings. Consequently, DDMC planning calls for appropriate business case analyses, performance and effectiveness metrics, and overall measures of effectiveness to be developed and consistently applied. DoD plans to use business case analyses for initial decision making, as well as to continually assess and evaluate the economic benefits and management effectiveness of privatization and outsourcing initiatives after they have been implemented.

POLICY: Plan on supporting new or developing weapon systems in the private sector consistent with the DoD CORE policy.

DoD establishes and maintains CORE depot maintenance capabilities to meet essential wartime surge demands, promote competition, and sustain institutional expertise. As new systems are acquired, it is important to consider both the need for CORE capabilities and the potential to obtain full spectrum contractor support, to include not only depot maintenance, but other logistics support functions as well. It may be possible to take advantage of competitively derived logistics support, perhaps even integrated with production, if the risk analysis shows that the system does not significantly drive CORE capability requirements. The Department approaches each new system with a goal of evaluation if an integrated contractor logistics support concept may yield optimum support. That option remains subordinate to any CORE depot maintenance capability requirements identified in the support analysis for new weapon systems or equipment.

There are significant opportunities to save tax dollars through reduced government investment in the logistics infrastructure by increasing DoD use of the private sector capabilities. As a result, the Department has provided guidance[7] to the Services to fully evaluate, and where appropriate, take advantage of the use of contractor long-term, total life cycle logistics support. The most significant revision to CORE policy, was creating the opportunity to evaluate and subsequently utilize, commercial sources of depot support where mission risk can be mitigated and best value obtained. Previous perceived bias or default to an organic depot has been eliminated, providing the opportunity for the acquisition community to propose the most appropriate support structure. Thus, the opportunity is available to the design team of a new or developing weapon system to achieve breakthrough innovations to reduce support costs.

The Department is also pursuing other opportunities to use sound commercial practices for weapon system support in any phase of their life cycle, in both organic and commercial depot facilities. One such opportunity is integration of depot maintenance requirements with other logistics support needs of a weapon system or subsystem. The various elements of support such as materiel management, transportation, supply support, configuration management, and sustaining engineering, as well as depot maintenance can be bundled in appropriate packages for contractor support. This approach can result in partial or total contractor logistics support (CLS). Examples where this approach is appropriate are:

- there is a relatively small inventory of end items being supported (e.g., small fleet of support aircraft),
- sophisticated, high technology capabilities are required to accomplish the support such as in space programs,
- systems being supported are undergoing continuing development and engineering changes, such as new production weapon systems that are expected to evolve over a significant portion of the life cycle,
- the system or subsystem has a commercial equivalent, or
- any situation where the commercial sector can provide best value consistent with operational requirements.

[7] DoDR 5000.2-R, *Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information Systems (MAIS) Acquisition Programs*, March 15, 1996

It is DoD policy to retain limited organic CORE depot maintenance capability to meet essential wartime surge demands, promote competition, and sustain institutional expertise. Support concepts for new and modified systems shall maximize, to the extent permitted by statutes, the use of contractor provided long-term, total life cycle logistics support that combines depot-level maintenance along with wholesale and selected retail materiel management functions. Life cycle costs and use of existing capabilities, particularly while the system is in production, shall play a key role in the overall selection process. Other than stated above, and with an appropriate waiver, DoD organizations may be used as substitutes for contractor provided logistics support, such as when contractors are unwilling to perform support, or when there is a clear, well documented cost advantage. The Program Manager shall provide for long-term access to data required for competitive sourcing of system support. The waiver to use DoD organizations must be approved by the Milestone Decision Authority.

The Department has recently made significant progress in establishing an environment to promote logistics support innovation and the pursuit of best value as the criterion for logistics support.

POLICY: ***Consider innovative contractor support concepts (e.g., "power by the hour" for aircraft turbine engines) and mutually beneficial long-term contractual relationships in structuring private sector depot maintenance support.***

The Department seeks breakthroughs in cost and performance to achieve its objective of reducing cost of ownership of weapon systems. These breakthroughs require incentivizing the entire Defense community to be innovative in finding ways to reduce these ownership costs. Incentives must motivate both Government and industry managers to look for opportunities to make changes in the weapon systems, the processes that support them, and the traditional contractual relationships that enable the support of the weapon system. Fundamental to motivating such changes is the need to create a win-win relationship where both parties can profit.

An example of one such breakthrough opportunity involving turbine engines, is a concept known as "power by the hour." Here the customer and the contractor agree to performance requirements (e.g., availability rates, hours to be flown, etc.) at a set cost per flying hour. Thus, cost becomes directly related to operating tempos, and not linked to random factors such as failure rates or unforeseen materiel requirements. This concept can provide cost predictability while supporting needed military capabilities. It also affords the contractor the flexibility, within agreed constraints, to achieve the efficiencies required to make a profit.

Such an approach is an application of "cost as an independent variable" (CAIV)[8] where the cost objective is traded off against military needs in establishing the contracted hourly rate and performance. Opportunities for innovative application of the CAIV concept for reducing support costs of fielded weapon systems are not limited to turbine engines. The Department has recently issued guidance to the Services and Defense Agencies to apply the CAIV concept for reducing life cycle cost of new and fielded systems. This detailed guidance emphasizes the need to motivate government and industry managers to set realistic, but aggressive cost objectives, perform cost-performance trades, seek win-win solutions, manage the associated risks, establish meaningful metrics to access the results, and enable rewards for good performance.

A further challenge that the Department is addressing, is the value of long-term contractual support relationships. This requires a difficult balance between being captive to one contractor for the life of the system, and establishing a contractor-Government team that provides best value support through commercial practices. Industry uses such long-term relationships to form teams and achieve efficiencies. A long-term contractual relationship for weapon system support could provide an environment where a contractor-Government team could achieve greater efficiency. The resulting longer term planning perspective allows the contractor an opportunity for profitable capital investments, and the ability to achieve synergism with commercial and other customers. The challenge is to assure that best value can be maintained and provide an alternative if best value is lost. Government ownership or purchase rights of key overhaul equipment and technical data will retain this alternative by assuring competition

[8] Memorandum for the Secretaries of the Military Departments et al, from the Under Secretary of Defense (Acquisition and Technology), *Reducing Life Cycle Costs for New and Fielded Systems*, December 4, 1995 and DoDR 5000.2-R, *Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information Systems (MAIS) Acquisition Programs*, March 15, 1996

if needed. The development of mutually agreed upon performance-based metrics, and other innovations, are needed to make long-term weapon system support contracts viable.

POLICY: Encourage best value commercial firms to enter into stable partnerships with organic facilities and to co-use organic capabilities consistent with applicable statutes.

Joint use may provide breakthrough opportunities for optimizing use of existing depot capacity retained to support CORE capabilities. Peacetime plant capacity at the depots sometimes exceeds CORE requirements, and could be efficiently utilized during peace by industrial clients to the benefits of the taxpayer. It is appropriate to encourage commercial firms to enter into partnerships with depot-level activities of the Military Components for the purpose of:

- demonstrating commercial uses of such depot-level activities that are related to the principal mission of such depot-level activities;

- preserving employment and skills of employees currently employed by such depot-level activities or providing for the re-employment and retraining of employees who, as the result of the closure, realignment, or reduced in-house workload of such activities, may become unemployed; and

- supporting the goals of other defense conversion, reinvestment, and transition assistance programs, while also allowing such depot-level activities to remain in operation to continue to perform their defense readiness mission.

All such arrangements, however, are to be evaluated with regard to sizing the organic depot maintenance infrastructure consistent with the DoD CORE policy. Additionally, the Secretary of the Military Department or Head of Defense Agency, must certify that the partnership entered into meets the conditions for sale of articles or services as specified in applicable public law.

The Army currently has two partnership efforts with private industry, the M109A6 Paladin Program with United Defense (UD) and the Abrams Upgrade Program with General Dynamics Land Systems (GDLS) Division. Under the Paladin, limited production and multi-year production contracts involving UD and Letterkenny Army Depot (LEAD), 824 Paladins will be acquired by the Army through conversion of the M109A2/A3 Howitzers. The convenience of the co-location of UD and LEAD is expected to produce a $19.7 million cost avoidance over the life of the program through simplified materiel transfer procedures. LEAD removes the traverse mechanism; disassembles the M109A2/A3 Howitzer; overhauls the chassis and modifies it to the Paladin configuration. Watervliet Arsenal manufactures the cannon and LEAD assembles the gun mount. UD assembles the reconditioned components, the overhauled and modified chassis, the new cab, the cannon, and the gun mount into an M109A6.

The Abrams Upgrade Program involves a partnership with GDLS and Anniston Army Depot (ANAD). The concept of the program is to modernize the CONUS Contingency Force and training base with 1079 M1A2 tanks by the end of the decade. The production responsibilities include disassembly of the tanks by ANAD, while GDLS receives the stripped hull, builds the new turret, and updates the haul.

POLICY: Permit leasing out of under-utilized DoD plants and equipment to contractors consistent with applicable statutes.

Congress has authorized the Department to lease out under-utilized depot maintenance facilities. Section 2471 of Title 10, U.S.C., authorizes the Secretary of a Military Department and, with respect to a Defense Agency, the Secretary of Defense, to lease excess equipment and facilities of their depot-level activities to a person outside the DoD. Specific limitations that apply are identified. The statute goes on to state that any reimbursement (including the payment of rental costs) received under this Section shall be credited to the treasury as miscellaneous receipts.

The Department has encouraged use of Section 2471 as a means to accrue a number of benefits including:

- Reduced cost for facilities/equipment.
- Retention of surge capability at minimal cost to the taxpayer.
- Integration of commercial industrial base and public sector maintenance base.
- Potential retention of wartime job skills.

In conjunction with the above, the Department continues to believe it is appropriate to size its maintenance depots consistent with CORE-related capability requirements, and to divest unneeded infrastructure and capacity. Even within this framework, however, some plants and equipment may be under-utilized during peacetime. The Department will continue to exercise appropriate oversight to ensure these two concepts - leasing under-utilized plants/equipment and sizing to CORE - remain compatible.

POLICY: Ensure that Government facilities that transition into private sector entities can be reestablished in the case of national emergency or nonperformance.

The Department is currently downsizing the organic infrastructure, primarily by implementing base realignment and closure decisions. Some of the closing depots are being transitioned into private sector entities that will continue to perform depot maintenance and other workloads with non-Federal government employees. As in the past, the Department will continue to rely on private sector sources for accomplishment of a portion of its mission essential depot maintenance requirements. This includes awarding mission critical workloads to closing facilities that are transitioning to private sector entities.

Because some of these facilities possess unique capabilities, it will be necessary to ensure that the Department's requirement to assure a ready and controlled source for certain mission essential equipment is met. Many of these facilities will pass to local redevelopment authorities (LRA) for ownership. Actual workloads will usually be performed by commercial contractors that are tenants in the facilities owned by the LRA.

Protecting the Department's interests will focus on two methods. First, where appropriate, leases with LRAs will include termination clauses which allow for reconverting the facilities back to Government control in the event of national emergency, default or the LRA no longer wishes to support required defense work in the facility. This will reduce risk during the initial phases of the privatization process and provide an opportunity to validate the viability of each candidate. Once title to real estate is formally conveyed to the LRA at the end of the BRAC process, the means available for nationalization are limited to cases of national emergency, as with any other commercial entity. Second, contracts shall provide for Government ownership or purchase rights of weapon-specific overhaul equipment in the custody of either the LRA or the performing commercial contractor. The ability of the Government to retain control of overhaul equipment is the key issue in ensuring long-term contractor support and provides the ability to periodically re-compete the workload to obtain best value or assign it to an organic source if necessary. This protects against non-performance and supports re-competition.

SECTION VII
DOCUMENT LISTING

The following documents were used, referred to, or reviewed in developing this report.

Document Description	Date	Author(s)
Article: Depot Policy Proves Elusive	4/18/94	Aviation Week & SpaceTechnology
Briefing: Air Force CORE Computation Process	11/22/93	Air Force
Briefing: Depot Maintenance and Materiel Management Standard Systems - System Effectiveness Analysis (SEA)	Dec 1995	JLSC
Briefing: Logistics For A New Age	~Nov 1995	LMI
Briefing: NAVAIR CORE Computation Process	11/22/93	NAVAIR
Briefing: NAVSEA CORE Briefing	11/22/93	NAVSEA
Briefing: Service CORE Methodology	1/10/96	Joint - Given by RADM Taylor to DDMC
Briefing: The CORE Algorithm Approach	11/22/93	JDMAG (Hollis Hunter)
Briefing: USMC CORE Computation Process	11/22/93	USMC
Briefing: Army CORE Computation Process	11/22/93	AMC
Briefing: CORE Depot Maintenance	~early1995	CAPT Heilman, USN
Briefing: Depot Maintenance CORE Lexicon	~Nov 1993	LMI
Briefing: Organic CORE Workload for Army Maintenance Depots	11/22/93	US Army Mat Systems Analysis Activity
Briefing: Using Technology to Reduce Cost of Ownership	Oct 1995	LMI
Charter for Joint Depot Environmental Panel and Joint Depot Maintenance Environmental Strategy	3/14/88	Joint Service
DoD Pub: DoDD 4140.1, Materiel Management Policy	1/4/93	OSD
DoD Pub: DoDD 4151.18, Maintenance of Military Materiel	8/12/92	OSD
DoD Pub: DoDI 4140.60, DoD Materiel Management	1/5/93	OSD
DoD Pub: DoDR 5000.2-R, Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information Systems (MAIS) Acquisition Programs	3/15/96	OSD
DoD Pub: DoDD 5128.32, Defense Depot Maintenance Council	11/7/90	OSD

Info Paper: Direct Sales Authority for Army Industrial Funded Activities	2/12/96	ADUSD(L) MPP&R
Letter: DepSecDef to Chairman, Committee on Armed Service (House) Forwarding DSB Report	4/7/93	DepSecDef
Letter: DepSecDef to Comm on Armed Service re: CORM Report	8/24/95	DepSecDef
Memo: Closing Bases Right	9/9/93	DepSecDef
Memo: Depot Maintenance Operations Policy	5/4/95	DepSecDef
Memo: Depot Maintenance Privatization Issues	11/1/95	Chairman, JPCG-DM
Memo: Depot Maintenance Standard System (DMSS)	9/15/95	DUSD(L)
Memo: Guidance for Implementing Sections of the FY 1995 Defense Authorization Act of Concern to Depot Maintenance Operations	11/16/94	DUSD(L)
Memo: Policy for Maintaining Core Depot Maintenance Capability	11/15/93	DUSD(L)
Memo: Privatization, Base Closure and Reuse	8/14/95	DepSecDef
Memo: Reducing Life Cycle Costs for New and Fielded Systems	12/4/95	USD(A&T)
Memo: Reporting of Program Modifications and Upgrades	10/14/93	USD(A&T)
Memo: Working Group Service Members Recommendation on CORE Methodology	12/12/95	PIPT Working Group
Plan: Defense Depot Maintenance Council Business Plan Fiscal Years 1995-1999	1/30/95	DDMC
Plan: DoD Logistics Strategic Plan: Edition 1995	~1995	DUSD(L)
Plan: Plan for Increasing Depot Maintenance Privatization and Outsourcing	1/18/96	ADUSD(L) MPP&R
Project Baseline: BAIM AIS	12/7/95	JLSC
Project Baseline: DM-HMMS AIS	12/7/95	JLSC
Project Baseline: DMMIS AIS	12/7/95	JLSC
Project Baseline: EIS AIS	12/7/95	JLSC
Project Baseline: FEM AIS	12/7/95	JLSC
Project Baseline: IMACS AIS	12/7/95	JLSC
Project Baseline: LIMS AIS	12/7/95	JLSC
Project Baseline: MRPII COTS AIS	12/7/95	JLSC
Project Baseline: PDMSS AIS	12/7/95	JLSC
Project Baseline: TIMA AIS	12/7/95	JLSC

Report: Addendum to DSB Depot Maintenance Task Force Report	~Oct 1994	Defense Science Board
Report: Defense Base Closure and Realignment Commission Report to the President	7/1/95	Defense Base Closure & Realignment Commission
Report: Depot Maintenance Public Versus Private Competition Report, prepared for the Deputy Under Secretary of Defense (Logistics)	March 1995	Coopers & Lybrand
Report: Directions for Defense, Report of the Commission on Roles and Missions of the Armed Forces	5/24/95	CORM
Report: DoD Depot Maintenance Performance Indicator Study	Dec 1993	DASO
Report: GAO/T-NSIAD-94-161: Issues in Allocating Workload Between the Public and Private Sectors	4/12/94	GAO (Heivilin)
Report: Report to Congress on Depot Maintenance: The Roles of Competition and Interservicing	~mid 1994	DUSD(L)
Report: Report to Congress on Determination of CORE Depot Maintenance Workload	6/13/94	DUSD(L)
Report: Report to Congress on The Depot Maintenance Industrial Base	~May 1994	DUSD(L)
Report: Report to Congress: "60/40" Report for FY 1994	1/13/95	DUSD(L)
Report: Report to Congress: DoD Depot Maintenance CORE Policy Considerations	~ Feb1995	DUSD(L)
Report: Integrated Management of DoD Depot Maintenance Activities	Oct 1993	DUSD(L)
Report: Private-Sector Outsourcing - Implications for Defense Privatization	10/16/95	Industry Support Group (Thompson & Earl)
Report: Task Force on Depot Maintenance Management	Apr 1994	Defense Science Board
Report: The DoD's Flexible, Computer-Integrated Manufacturing Initiatives	Jan 1996	LMI

OFFICE OF THE SECRETARY OF DEFENSE
REPORT TO CONGRESS
DEPARTMENT OF DEFENSE
DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOAD

OVERVIEW

Depot-level maintenance and repair entails repair, rebuilding, and major overhaul of weapon systems (e.g., ships, tanks, and aircraft), parts, assemblies, and subassemblies. It also includes limited manufacture of parts, technical support, modifications, testing, and reclamation as well as software maintenance. Depot maintenance is currently accomplished by some 89,000 Federal Government employees ranging from highly trained technicians and skilled artisans to engineers and top-level managers. The Military Services currently operate 30 major depot maintenance facilities (some of which are in the process of being closed as DoD maintenance depots). Additionally, the Department uses in excess of 1,300 U.S. and foreign commercial firms to support its depot maintenance requirements. Depot maintenance of DoD weapon systems and equipment is a $13-14 billion a year business. DoD policy governing depot maintenance operations is predicated on providing flexible, timely and cost-effective depot maintenance support, as well as retaining military control over certain essential capabilities. This policy is necessarily shaped by Departmental requirements for readiness, sustainability and support; by evolving national military strategy requirements; and by external considerations such as legislative mandates. A separate report outlining the Department's integrated policies for depot maintenance management has been concurrently provided to the Committee on Armed Services of the Senate and the Committee on National Security of the House of Representatives.[1]

There has always been considerable interest in the size of the organic infrastructure maintained to support depot-level workload requirements, specifically in the workload types and levels accomplished using public sector capabilities. Prior to 1988, DoD maintenance capabilities were comprised of a large organic depot maintenance complex that was a legacy of the Cold War. It was designed to sustain protracted engagement of sizable forces engaged globally against a substantial enemy. This structure was based on the premise that the essential skills, facilities, and equipment were not readily available in the private sector. With the end of the Cold War and the beginning of the base realignment and closure (BRAC) process, DoD has undertaken a significant downsizing of the organic depot maintenance structure. Contributing to the ability to downsize is industry's increasing capability to provide repair and maintenance services for high-technology military hardware. High quality, efficient maintenance service providers have emerged for many DoD overhaul requirements, creating a competitive private sector base from which the DoD can often achieve best value.

[1] *Report on Policy Regarding Performance of Depot-Level Maintenance and Repair for the Department of Defense*, Office of the Secretary of Defense, March 1996.

It has become apparent that private sector wartime support of some mission essential systems and components can be assured with acceptable risk. The Department, however, recognizes that some capabilities must be maintained under direct Department control and carried out in a DoD facility by Federal Government employees and that some workloads may remain most cost effective within the organic structure. These CORE capability requirements are derived from applicable Joint Chiefs of Staff contingency scenarios and requirements – currently the two-Major Regional Contingency (MRC) scenario.

The expenditure data presented in this report show that the Department has generally complied with statutory requirements regarding accomplishment of depot-level maintenance and repair work by non-Federal Government employees. The prospective data displaying programmed funding for FY 1997-FY 2001 demonstrate that somewhat reduced workloads can be accomplished in the public sector in support of quantitatively derived CORE capability and related requirements. The Department can and should increase its reliance on the private sector to reduce organic infrastructure costs and where possible, reap the benefit of competitive private sector support capabilities. In this time of diminishing Defense budgets, the Department believes that the cost of providing essential wartime capabilities and performing all depot maintenance work can be reduced. Sizing organic depots to provide CORE capabilities is more effective than ensuring that no more than 40 percent of the funds made available in a fiscal year to each Military Department for depot-level maintenance and repair is used to contract for the performance by non-Federal Government personnel of such workload, as currently required by statute. The current statutory "60/40" requirement is arbitrary and undermines effective depot maintenance management. Such a restriction prevents DoD from taking full advantage of private sector opportunities and is counter to efficient government and managerial principles. The Department has in place, and practices the necessary management of its depot maintenance program to justify revision of the current legislative limitations on depot maintenance management.

Several approaches were used to compile this report. Section I contains data on the historic levels of funding for depot-level maintenance and repair workloads (FY 1991-FY 1995) that are based on Military Service review of past depot maintenance programmatic information. This data is presented in then year dollars given the singular objective of portraying the relative sizes of workloads accomplished by Federal Government employees (public sector) and non-Federal Government employees (private sector).

The projections of programmed funding for future workloads in Section II accommodate application of the revised CORE quantification methodology. This methodology is outlined and discussed in Section II. Workload projections also consider other programmatic information regarding the size and content of future total depot maintenance requirements. The data in Section II is presented in constant FY 1996 dollars to provide an indication of future depot maintenance program trends for each Military Department as well as the sizes of the respective shares of total workload estimated to be accomplished by Federal Government and non-Federal Government employees. Portraying the data in constant dollars more readily provides significant trend information for the overall program and for the public/private sector shares.

The data in both Sections I and II are arrayed in terms of dollars; not direct labor hours (DLHs). The Department does not collect or project non-Federal Government employee depot maintenance support levels in DLHs. It has been determined that such data is not normally contracted for, nor would it be cost-effective to do so.

Finally, Section III provides, as required by the Congress, discussion and analysis of the need for and effect of the requirement under Section 2466 of Title 10, United States Code (U.S.C.), that no more than 40 percent of the funds made available in a fiscal year to a Military Department or a Defense Agency for depot-level maintenance and repair workload may be used to contract for the performance by non-Governmental Federal personnel. This Section is based on inputs from the Military Services as well as on work by staff maintenance analysts. In projecting programmed funding for future depot-level maintenance and repair workloads to be accomplished by Federal Government and non-Federal Government employees and presenting Department views of statutory restrictions (as requested by Congress), DoD considered the full range of national security interests of the United States and capabilities inherent within the industrial base comprising both public and private sectors.

This report is provided in compliance with the National Defense Authorization Act for Fiscal Year 1996. Future workload projections and the Department's position on removing existing statutory limitations reflect full consideration of: (1) the readiness and sustainability requirements of DoD forces, and (2) the optimum use of Department resources. The requirement for this report to Congress is outlined below.

REPORT REQUIREMENT

Section 311 of the National Defense Authorization Act for Fiscal Year 1996 states:

> It is the sense of Congress that there is a compelling need for the Department of Defense to articulate known and anticipated CORE maintenance and repair requirements, to organize the resources of the Department of Defense to meet those requirements economically and efficiently, and to determine what work should be performed by the private sector and how such work should be managed.

Section 311, paragraph (c), directs the Secretary of Defense to develop and report to the Committee on Armed Services of the Senate and the Committee on National Security of the House of Representatives a comprehensive policy on the performance of depot-level maintenance and repair for the Department of Defense that maintains the capability described in Section 2464 of Title 10, U.S.C. That report has been provided under separate cover. Section 311, paragraph (i) outlines the requirements for this current report on depot-level maintenance and repair workload. Specifically, it requires that not later than March 31, 1996, the Secretary of Defense shall submit to the Congress a report on the depot-level maintenance and repair workload of the Department of Defense. The report shall, to the maximum extent practicable, include the following:

1. An analysis of the need for and effect of the requirement under Section 2466 of Title 10, U.S.C., that no more than 40 percent of the funds made available in a fiscal year to a Military Department or a Defense Agency for depot-level maintenance and repair workload may be used to contract for the performance by non-Governmental Federal personnel, including a description of the effect on military readiness and the national security resulting from this requirement, and a description of any specific difficulties experienced by the Department of Defense as a result of that requirement.

2. An analysis of the distribution, during the five fiscal years ending with fiscal year 1995, of the depot-level maintenance repair workload of the Department of Defense and non-Government personnel measured by direct labor hours and by amount expended, and displayed, for that five-year period and for each year of that period so as to show (for each Military Department (and separately for the Navy and Marine Corps)) such distribution.

3. A projection of the distribution, during the five fiscal years beginning with fiscal year 1997, of the depot-level maintenance and repair workload of the Department of Defense between depot-level activities of the Department of Defense and non-Government personnel measured by direct labor hours and by amounts expended, and displayed, for that five year period and for each year of that period so as to show (for each Military Department (and separately for the Navy and Marine Corps)) such distribution that would be accomplished under a new policy as required under subsection (c).

REPORT CONTENT

In compliance with the above outlined reporting requirement, this report consists of the following sections:

Section	Title
I	Data Concerning Funding for Depot-Level Maintenance and Repair Workloads Accomplished by Federal Government and Non-Federal Government Personnel, FY 1991 - FY 1995
II	Projected Programmed Funding for Depot-Level Maintenance and Repair Workloads Accomplished by Federal Government and Non-Federal Government Personnel, FY 1997 - FY 2001
III	Section 2466 of Title 10, U.S.C., General Management

SECTION I

DATA CONCERNING FUNDING FOR DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOADS ACCOMPLISHED BY FEDERAL GOVERNMENT AND NON-FEDERAL GOVERNMENT PERSONNEL, FY 1991-FY 1995

Tables 1 through 5 reflect data pertaining to funding for DoD depot-level maintenance and repair workloads accomplished by Federal Government and non-Federal Government personnel during FY 1991-FY 1995. Funding for workloads accomplished by Federal Government personnel is based on actual execution, while funding for workloads accomplished by non-Federal Government personnel is based on actual obligations. Consistent with the decision to portray actual program execution data in then year dollars for each fiscal year, workload was collected from the public sector depots that performed the work. The most significant impact of this decision is that interservice workload is reflected in the total of the performing Service, not the requiring Service. Other data portrayals (e.g., appropriation or obligation) align these workloads to the requiring Service. These data were compiled in such a manner as to accurately reflect the level of depot-level maintenance accomplished.

The data portrayed pertain to actual program funding which reflects the depot maintenance that was conducted. Further, the data include the costs associated with the performance of all depot-level maintenance workload regardless of the funding source and the location where the work was conducted. Consequently, work from several facilities that are not part of the Defense Business Operating Fund (DBOF) is included as well as depot maintenance from several facilities primarily devoted to other purposes.

The following comments pertain to the data on workloads accomplished by **Federal Government** employees (public sector):

- **Included**: All workloads accomplished at maintenance depots, regardless of level, and including modifications and upgrades.
- **Included**: All costs including direct, indirect, and overhead costs; salaries; material and parts; utilities; depreciation; capital investment; facility repair; and support services.
- **Included**: Depot maintenance workloads from all funding sources, not just that funded from the depot maintenance program appropriation.
- **Included**: Depot workloads accomplished at facilities primarily devoted to other-than-depot-level maintenance purposes (except as identified below).
- **Included**: Workloads accomplished at non-DBOF depot maintenance facilities.
- **Not Included**: Cost comparability adjustments, DBOF adjustments, major Military construction projects, and procurement of major modifications applied in public sector depots.
- **Not Included**: Workloads accomplished at Army ammunition and other non-maintenance depot operations, and workloads accomplished at Navy Warfare Center non-maintenance operations.

The following comments pertain to the data on workloads accomplished by **non-Federal Government** employees (private sector):

- **Included**: All contract depot maintenance workloads including program manager and program executive officer administered contracts.
- **Included**: Contractor logistics support (CLS) and interim contractor support (ICS) for depot maintenance.
- **Not Included**: Costs incurred by the public sector maintenance depots for the purchase of raw materials and parts produced in the private sector as well as direct support services purchased by public sector depots. These costs are, however, included in the costs of the public sector.

In summary then, these data are presented with the perspective of the Military Departments as agents performing work for any and all customers. The data are presented in then year dollars.

TABLE 1
ARMY DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOADS
FY 1991-FY 1995

Distribution Of Army Funding For Depot Maintenance And Repair Workloads Accomplished By Federal Government Personnel And Non-Federal Government Personnel

(Then Year Dollars in Millions)

	FY91	FY92	FY93	FY94	FY95
Total Workload	2,298	2,259	1,902	1,333	1,550
Public Workload	1,366	1,499	1,324	831	1,015
Private Workload	932	760	578	502	535

(Percent)

	FY91	FY92	FY93	FY94	FY95
Public Workload	59	66	70	62	66
Private Workload	41	34	30	38	34

NOTE: Tables may not add due to rounding.

The data presented above in Table 1 include funding for depot maintenance operations accomplished by Federal Government and non-Federal Government personnel primarily at Army maintenance depots and private sector commercial firms. It does not include funding for Army ammunition and other non-maintenance depot operations. As can be seen, funding for the total Army depot-level maintenance and repair workload declined substantially over the five year period. Funding for workloads accomplished by Federal Government personnel declined slightly more slowly (down 26 percent) than did funding for workloads accomplished by non-Federal Government personnel (down 43 percent). Part of this difference can be

attributed to Army efforts to maintain the statutory balance between the funding for workloads accomplished by Federal Government and non-Federal Government personnel. In FY 1991, funding for Army workloads accomplished by Federal Government personnel, as calculated here, fell short of the 60 percent "floor" on such work. This was primarily due to the substantial level of support provided by non-Federal Government personnel for Army aviation depot maintenance. In redressing this imbalance in private sector work, Army funding for workloads accomplished by non-Federal Government personnel during FY 1992 and FY 1993 were allowed to decline more rapidly than funding for Federal Government personnel. The overall decline in funding associated with the total amount of work being accomplished, reflects the impact of the changing force structure and level of operations subsequent to the Gulf War.

TABLE 2
DEPARTMENT OF THE NAVY DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOADS
FY 1991-FY 1995

Distribution Of Department of Navy Funding For Depot Maintenance And Repair Workloads Accomplished By Federal Government Personnel And Non-Federal Government Personnel*

(Then Year Dollars in Millions)

	FY91	FY92	FY93	FY94	FY95
Total Workload	9,416	9,801	8,963	8,108	7,743
Public Workload	6,437	6,757	6,595	5,980	5,796
Private Workload	2,978	3,044	2,368	2,128	1,947

(Percent)

	FY91	FY92	FY93	FY94	FY95
Public Workload	68	69	74	74	75
Private Workload	32	31	26	26	25

NOTES: Tables may not add due to rounding.

*FY 1991-1993 data include strategic missiles; FY 1994 & 1995 do not.

The public workload data presented above in Table 2 include funding for depot maintenance operations accomplished by Federal Government personnel at Naval Aviation Depots, Naval Shipyards, Naval Surface Warfare Centers, Naval Undersea Warfare Centers, Naval Ordnance Centers, Space and Naval Warfare Command (SPAWAR), the Marine Corps Depot Maintenance Activities, and private sector commercial firms.

TABLE 3
NAVY DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOADS*
FY 1991-FY 1995

Distribution Of Navy Funding For Depot Maintenance And Repair Workloads Accomplished By Federal Government Personnel And Non-Federal Government Personnel**

(Then Year Dollars in Millions)

	FY91	FY92	FY93	FY94	FY95
Total Workload	9,288	9,616	8,770	7,924	7,506
Public Workload	6,313	6,576	6,405	5,797	5,571
Private Workload	2,975	3,040	2,365	2,126	1,935

(Percent)

	FY91	FY92	FY93	FY94	FY95
Public Workload	68	68	73	73	74
Private Workload	32	32	27	27	26

NOTE: Tables may not add due to rounding.

*These data are exclusive of Marine Corps data that is presented below.
**FY 1991-1993 data include strategic missiles; FY 1994 & 1995 do not.

TABLE 4
MARINE CORPS DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOADS
FY 1991-FY 1995

Distribution Of Marine Corps Funding For Depot Maintenance And Repair Workloads Accomplished By Federal Government Personnel And Non-Federal Government Personnel

(Then Year Dollars in Millions)

	FY91	FY92	FY93	FY94	FY95
Total Workload	128	184	193	185	237
Public Workload	124	181	190	183	225
Private Workload	3	3	3	2	12

(Percent)

	FY91	FY92	FY93	FY94	FY95
Public Workload	97	99	98	99	95
Private Workload	3	1	2	1	5

NOTE: Tables may not add due to rounding.

The data presented in Table 4 above include funding for depot maintenance operations accomplished by Federal Government and non-Federal Government personnel primarily at the Marine Corps Depot Maintenance Activities and a relatively small amount of work carried out in private sector commercial firms. Funding for depot-level maintenance and repair workloads accomplished by Federal Government personnel grew by nearly 46 percent from FY 1991 to FY 1992 and then gradually increased another 24 percent by FY 1995. The FY 1994 level of funding for workloads accomplished by Federal Government personnel reflects the Marine Corps decision to work off increased amounts of funded carryover workload. The FY 1995 level of funding for workloads accomplished by non-Federal Government personnel reflects a substantially increased level of such support which will apparently be sustained in the future.

TABLE 5
AIR FORCE DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOADS
FY 1991-FY 1995

Distribution Of Air Force Funding For Depot Maintenance And Repair Workloads Accomplished By Federal Government Personnel And Non-Federal Government Personnel

(Then Year Dollars in Millions)

	FY91	FY92	FY93	FY94	FY95
Total Workload	3,914	3,998	4,111	3,986	3,882
Public Workload	2,512	2,566	2,643	2,873	2,775
Private Workload	1,402	1,432	1,468	1,113	1,107

(Percent)

	FY91	FY92	FY93	FY94	FY95
Public Workload	64	64	64	72	71
Private Workload	36	36	36	28	29

NOTE: Tables may not add due to rounding.

The data presented above in Table 5 include funding for depot maintenance operations primarily carried out at Air Force Air Logistics Centers, the Aerospace Guidance and Metrology Center, the Aerospace Maintenance and Regeneration Center, other Air Force depot maintenance support activities and, in the case of private sector workload, at commercial firms. Total funding for Air Force depot-level maintenance and repair grew 5 percent from FY 1991 to FY 1993 and then declined 6 percent by FY 1995. Funding for workloads accomplished by non-Federal Government personnel increased steadily over the period until FY 1994.

SECTION II

DATA CONCERNING PROJECTED PROGRAMMED FUNDING FOR DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOADS ACCOMPLISHED BY FEDERAL GOVERNMENT AND NON-FEDERAL GOVERNMENT PERSONNEL FY 1997-FY 2001

This section first outlines the Department's CORE quantification methodology. It is the Department's position, as described in Section III, that this methodology should replace the legislative requirement of Section 2466 of Title 10, U.S.C. The remainder of this section then provides data on the projected funding of depot maintenance and repair workloads of the Military Services for FY 1997-FY 2001 based on implementation of the CORE quantification methodology.

The Department establishes CORE depot maintenance capabilities to meet essential wartime demands, promote competition, and sustain institutional expertise. These capability requirements shape the minimum amount of organic depot facilities, equipment, and personnel that DoD maintains as a ready and controlled source of technical competence. CORE capabilities mitigate the operational risks associated with maintaining readiness for, successfully completing, and expeditiously recovering from contingency operations. DoD considers and manages CORE requirements from a DoD perspective (i.e., the integrated totality of the individual Service CORE requirements equal the DoD CORE requirement). The Department is moving to size the organic sector consistent with CORE requirements (including "last source of repair" and "best value" requirements) and is further pursuing downsizing commensurate with changes in requirements and overall force structure. In considering the organic, or public sector, DoD is looking to establish and retain a lean but robust, technologically proficient infrastructure.

The current DoD CORE policy describes CORE in these terms:

> Depot maintenance CORE is the capability maintained within organic Defense depots to meet readiness and sustainability requirements of the weapon systems that support the JCS contingency scenario(s). CORE exists to minimize operational risks and to guarantee required readiness for these weapon systems. CORE depot maintenance capabilities will comprise only the minimum facilities, equipment, and skilled personnel necessary to ensure a ready and controlled source of required technical competence. Depot maintenance for the designated weapon systems will be the primary workloads assigned to DoD depots to support CORE depot maintenance capabilities.

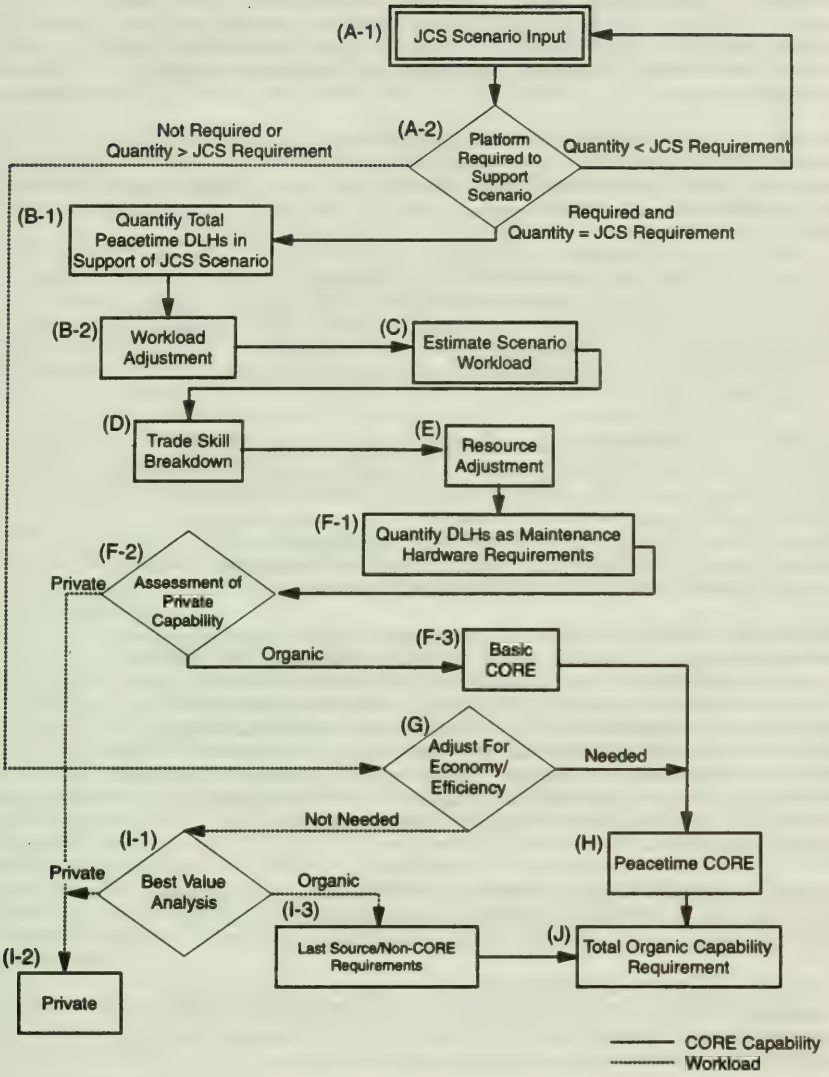
It is important to note, not all critical or mission-essential weapon systems and equipment will necessarily be maintained in organic depot maintenance facilities, but the capability to perform depot maintenance on designated weapon systems must be maintained organically. Simply put, CORE represents the minimum amount of maintenance capability that the DoD Components must maintain in organic depot facilities to ensure that contingency operations are not compromised because of lack of essential depot maintenance support.

The DoD CORE policy provides a sound basis for the identification of the depot maintenance capabilities which ensure a ready and controlled organic source of technical competence. In order to efficiently maintain these CORE capabilities, organic depot facilities, equipment, and personnel resources are used to accomplish a broad range of depot maintenance workload in support of peacetime operations. Most of this workload involves the overhaul or repair of weapon systems identified in the JCS scenarios and their components. Such work occasionally includes fabrication of parts when not readily available from normal sources. Modifications on selected systems are also sometimes accomplished as necessary and appropriate in conjunction with CORE workload requirements. Organic workload will continue to include "best value" (no economical private sector source) and "only source of repair" (no private sector source) work. In sizing the organic base to match the CORE requirements as well as last source and best value, a single shift, forty hour work week standard is used, thus preserving the depot's capability to instantaneously respond to surge requirements via expanded work hours during emergency operations.

Organic capability requirements will change as the result of factors such as: force structure changes, changing threats, introduction of new weapon systems, the aging or modification of existing weapon systems, added capabilities of the private sector, or even changes in battle doctrine. For these reasons it is necessary to review the CORE capability requirements on a regular basis, or when the situation dictates. These reviews are conducted at a minimum of every two years and must be based on the JCS Defense Planning Guidance. Just as the capability requirements change, the workloads required to support these capabilities will also change.

The determination of CORE capability requirements, and the depot maintenance workloads necessary to sustain these capabilities, are developed by each Service using a jointly agreed upon methodology. The totality of each of those calculations then becomes the DoD requirement.

The methodology used by the Military Services in determining their CORE capability requirements, and the workloads necessary to sustain these capabilities, is depicted in the diagram below. This process was recently refined by the Services and approved by the Defense Depot Maintenance Council (DDMC). The chief difference from past practice is a predilection towards accomplishment by non-Federal Government employees of those workloads that are not required to support a capability necessary to the Military Department Secretary's organic industrial base. For those workloads, the Military Service must conduct an assessment of private capabilities. If it is determined that non-Federal Government employees can provide the required capability with acceptable risk, reliability and efficiency, then the workload should be made available for a best value assessment. Additionally, the Services now recognize that not all of the depot maintenance on a particular weapon system is necessary to sustain CORE capabilities. There may be a mix of Government and non-Federal Government personnel support for the same system. Each step outlined is explained in the text following the diagram.



CORE Methodology

BLOCK A-1 -- JCS SCENARIO INPUT. The determination of the total DoD organic depot-level capability is based on the JCS combat contingency scenario(s) and JCS Defense Planning Guidance. Each Service's required organic capability, expressed in direct labor hours (DLHs), will vary according to their different roles in support of the JCS scenario(s).

BLOCK A-2 -- PLATFORM REQUIRED TO SUPPORT SCENARIO. Each Service determines the specific platform (e.g., Abrams A-1 tank, F-14, F-15) required to support the selected JCS scenario. If the platform is required, quantify and compare the scenario requirements with the respective total active inventories to identify any inadequacies. If the platform quantity is not available, notify JCS. If the platform quantity is available and equal to the JCS requirement, go to Block B-1 (Quantify Total Peacetime DLHs in Support of JCS Scenario). If the platform quantity is greater than the JCS requirement, the amount equal to the JCS requirement goes to Block B-1 (Quantify Total Peacetime DLHs in Support of JCS Scenario), and the amount greater than the JCS requirement goes to Block G (Adjust for Economy/Efficiency). If the platform is not required, go to Block G (Adjust for Economy/Efficiency).

BLOCK B-1 -- QUANTIFY TOTAL PEACETIME DIRECT LABOR HOURS (DLHs) IN SUPPORT OF JCS SCENARIO. Determine the peacetime DLHs for those platforms necessary to support the JCS scenario. This is accomplished by dividing the JCS scenario platform requirements by the occurrence factor (e.g., number of years between return to depot) multiplied by the platform work package/norm. The platform work package/norm is determined by each Service and based on their different roles in support of the JCS scenario.

BLOCK B-2 -- WORKLOAD ADJUSTMENT. Adjust workload for experience and scenario driven factors. Develop scenario workload experience for those quantities passed from B-1 (Quantify Total Peacetime DLHs in Support of JCS Scenario). The Services use either a composite, weighted average or platform specific factor to consider readiness, sustainability, and/or return to peacetime readiness in their calculations. The specific workload factors will be determined by available information from scenario models (which include factors for platform OPTEMPO, attrition, etc.), occurrence factors, historical peacetime/wartime reliability and maintenance factors (e.g., DESERT SHIELD/DESERT STORM), and other scenario-driven factors.

BLOCK C -- ESTIMATE SCENARIO WORKLOAD. Estimate workload-based readiness/sustainability requirements. Using the information from Block B-2 (Workload Adjustment), determine the scenario-related workload in DLHs.

BLOCK D -- TRADE SKILL BREAKDOWN. Determine depot skills required. Using Block C (Estimate Scenario Breakdown) as a basis, identify the depot-level capabilities by skill required to support the scenario-driven platforms and associated workload. This breakdown is not part of the numerical calculation.

BLOCK E – RESOURCE ADJUSTMENT. Adjust for depot surge capacity. The resource adjustment is accomplished by applying a Service value to Block C (Estimate Scenario Workload) to reduce the scenario workload to peacetime staffing required DLHs. This adjustment reflects the work force's ability, through the use of overtime and additional workdays, to meet emergent requirements.

BLOCK F-1 – QUANTIFY DLHs AS MAINTENANCE HARDWARE REQUIREMENTS. The quantity of DLHs from Block E (Resource Adjustment) is divided by the platform work packages/norms to convert to the maintenance hardware requirement.

BLOCK F-2 – ASSESSMENT OF PRIVATE CAPABILITIES. If the capability associated with the maintenance hardware requirement is needed to support the Service Secretary's organic industrial base required for readiness and control, then go to Block F-3 (Basic CORE). If not, conduct a risk assessment to determine if maintenance sources exist in the private sector to support the platform/hardware requirement. This assessment will consider criteria such as: (1) Do private sources exist in the private sector that are economical and possess the maintenance capability and capacity to do the work? (2) Have private sources demonstrated proven past performance? If the assessment determines that the private sector can provide the required capability with acceptable risk, reliability and efficiency, then go to Block I-2 (Private). If not, then go to Block F-3 (Basic CORE).

BLOCK F-3 – BASIC CORE. Compute CORE with above adjustments. Basic CORE consists of the requirements identified in Block E (Resource Adjustment) minus the requirements transferred to the private sector in Block F-2 (Assessment of Private Capabilities).

BLOCK G – ADJUSTMENT FOR ECONOMY/EFFICIENCY. Apply economy/efficiency factor to keep the required minimum CORE support from being exorbitantly and prohibitively expensive. Capability utilization is examined and efficiency factors are applied to optimize throughput and ensure valuable personnel are fully utilized rather than left idle for long periods of time. The economy and efficiency adjustments are constrained by the number of personnel required to accomplish requirements identified in Block F-3 (Basic CORE). Examine the maintenance requirements for the platform types passed from Block A-2 (Platform Required to Support Scenario) or Block F-2 (Assessment Of Private Capabilities) for potential augmentation of like platforms/commodities or to improve economies of scale. If needed, go to Block H (Peacetime CORE). If not needed, go to Block I-1 (Best Value Analysis). Additional adjustments required by policy or law (e.g., adjustment necessary to meet "60/40") are also made at this point in the methodology.

BLOCK H – PEACETIME CORE. Basic CORE plus economy/efficiency adjustments. The result of adding Block F-3 (Basic CORE) to Block G (Adjust for Economy/Efficiency).

BLOCK I-1 -- BEST VALUE ANALYSIS. Usually private/private competition will determine best value. Work will be assigned to an organic depot only when private industry cannot meet Service requirements or if the capabilities are nonexistent in the private sector. If private, go to Block I-2 (Private) or if organic, go to Block I-3 (Last Source/Non-CORE Requirements).

BLOCK I-2 -- PRIVATE. Those platforms passed from Block F-2 (Assessment of Private Capabilities) and Block I-1 (Best Value Analysis) will be made available for support by the private sector (contracted out).

BLOCK I-3 -- LAST SOURCE/NON-CORE REQUIREMENTS. Those requirements passed from Block I-1 (Best Value Analysis) will be accomplished by an organic source because there are compelling reasons that preclude privatization (e.g., no other sources, private industry is cost prohibitive, etc.).

BLOCK J -- TOTAL ORGANIC CAPABILITY REQUIREMENT. Block H (Peacetime CORE) plus Block I-3 (Last Source/Non-CORE Requirements) results in an annual organic workload consistent with the JCS scenario requirements, expressed in DLHs.

As shown in the preceding diagram, the capability requirement determined as the result of the above methodology includes not only the CORE requirement, but also the capacity needed to handle last source adjustments for economy/efficiency and best value. It is also recognized that the detailed computation of CORE in peacetime will not perfectly anticipate contingency requirements if and when wartime operations commence. The inability to be precise in predicting exact wartime needs underscores the importance of our organic depot maintenance structure, which employs artisans in many classes of repair requirements who can be re-directed towards the actual end items needed to support any arising contingency. In the aggregate it is anticipated that the pluses and minuses will balance. Hence, the overall computation of CORE will be a reasonable statement of requirements needed to establish and maintain contingency-driven weapon system support capabilities.

DoD establishes and maintains facilities, equipment, and trained personnel to provide DoD CORE depot maintenance capabilities. The activities at which these capabilities are maintained will be provided adequate peacetime workloading to effectively and efficiently use their CORE capabilities. Based on the quantification of CORE-related capability requirements, the data provided below outline the projected depot-level maintenance and repair workloads of the public and private sectors.

Tables 6 through 10 provide projections of future depot maintenance funding, expressed in dollars, for each Military Department (with the Navy and Marine Corps listed separately). The projected data for FY 1997-FY 2001 is from the perspective of the requiring Service or the customer with the need for depot maintenance support. This contrasts with the data portrayals in Section I of this report which were from the performing Service viewpoint. Displaying projected data from the perspective of the requiring Service is necessary since it is not practical to predict the performing activity of significant portions of outyear workload, be it in a Service own depot, through interservicing or by commercial contract. The tables **do not** include interim contractor support (ICS) or contractor logistic support (CLS) data. The tables break out the total

workload into the portions of that workload that are projected to be (1) performed by Federal Government employees in depot-level activities of the DoD, i.e., public sector workload, and (2) performed by non-Federal Government personnel, i.e., private sector workload. The tables also indicate the respective public sector and private sector percentages of the total workload. These projections assume acceptance by the Congress of the Department's depot maintenance policies (followed by the revision of current statutory Federal Government employee and non-Federal Government employee limitations, i.e., Sections 2466 and 2469 of Title 10, U.S.C.) and implementation of DoD's revised depot maintenance CORE quantification approach. Data projections for these tables assume that Federal Government employees would accomplish workloads required to sustain CORE capabilities, last source of repair workloads, and those workloads resulting from best value public-private competitions. Basically, all other workloads are assumed to be outsourced for accomplishment by non-Federal Government employees. It should be noted that this data is based on the Military Service's current budget and programming data and best estimates; some data, including that from the most current Program Objective Memorandum, may be dated.

Finally, these data are presented with the perspective of the respective Military Departments as principals requiring and paying for work from any and all providers. The data are presented in constant FY 1996 dollars.

TABLE 6
ARMY DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOADS
FY 1997-FY 2001

Distribution Of Programmed Funding* for Army Depot Maintenance And Repair Workloads Accomplished By Federal Government Personnel And Non-Federal Government Personnel

(Constant FY 1996 Dollars in Millions)

	FY97	FY98	FY99	FY00	FY01
Total Workload	1,270	1,172	1,249	1,198	1,166
Public Workload	872	678	729	669	657
Private Workload	398	494	520	529	509

(Percent)

	FY97	FY98	FY99	FY00	FY01
Public Workload	69	58	58	56	56
Private Workload	31	42	42	44	44

NOTE: Tables may not add due to rounding.

*These data do not include programmed funding for the depot maintenance-related portions of Interim Contractor Support (ICS) or Contractor Logistic Support (CLS).

The CORE computation requirement underlying the above data is based on projected depot maintenance requirements and refurbishment of key Army weapon systems following a two-Major Regional Conflict (MRC) scenario. By system, these requirements have been further defined into specific skills and capabilities. The revised CORE methodology emphasizes sustaining these capabilities and skills, rather than the specific weapon systems. It also provides for accomplishing in the private sector those workloads not absolutely essential for sustaining CORE capabilities. Using the revised methodology, Army CORE requirements are now calculated to be 11.22 million direct labor hours (DLHs). This is about 23 percent less than the CORE requirements calculated in FY 1994.

The Army data presented above are shaped by the following specific assumptions:

- Transfer of Red River Army Depot (RRAD) non-Bradley-related CORE capabilities to Anniston Army Depot (ANAD) and outsource (using full and open competition) workloads currently at RRAD, but no longer required to sustain CORE capabilities.
- Privatize (as a Government-owned, contractor operation (GOCO) facility) the tactical missile workloads at Letterkenny Army Depot (LEAD), as opposed to transferring this workload to Tobyhanna Army Depot (TYAD).
- The use of partnership arrangements (between public and private sector sources) for additional workloads (particularly small arms) which exceed those necessary to sustain CORE capabilities.

The data for the FY 1997-FY 2001 shows total programmed funding for Army depot maintenance workload declining over the period by about 8 percent. The funds used for accomplishment of depot-level and repair workloads by Federal Government personnel decrease approximately 25 percent, while the funds used for accomplishment of depot-level and repair workloads by non-Federal Government personnel increase almost 28 percent. As can be seen, it is projected that the Army will exceed the current Section 2466 statutory limitation that no more than 40 percent of the funds made available in a fiscal year for depot-level maintenance and repair workload may be used to contract for the performance by non-Governmental Federal personnel (private sector) in FY 1998. Workloads accomplished by Federal Government personnel are projected to level out at about 56 percent of total funded workload in the out years.

ERRATA SHEET

TABLE 7
DEPARTMENT OF THE NAVY DEPOT-LEVEL MAINTENANCE
AND REPAIR WORKLOADS*
FY 1997-FY 2001

Distribution Of Programmed Funding for Department of Navy Depot Maintenance And Repair Workloads Accomplished By Federal Government Personnel And Non-Federal Government Personnel

(Constant FY 1996 Dollars in Millions)

	FY97	FY98	FY99	FY00	FY01
Total Workload	5525	5474	5909	6213	5780
Public Workload	3386	3267	3130	3328	2939
Private Workload	2139	2207	2779	2885	2841

(Percent)

	FY97	FY98	FY99	FY00	FY01
Public Workload	61	60	53	54	51
Private Workload	39	40	47	46	49

NOTE: Tables may not add due to rounding.

*These data do not include programmed funding for the depot maintenance-related portions of Interim Contractor Support (ICS) or Contractor Logistic Support (CLS).

The data presented above are for the entire Department of the Navy (DON). These data are discussed in more detail below in Table 8 and 9 with the Marine Corps separated from the other components of the Department of the Navy. Combined DON data show that during FY 1997-FY 2001, total depot maintenance increases about 5 percent. The larger changes apparent in the data are that the funds used for accomplishment of depot-level and repair workloads by Federal Government personnel decrease approximately 13 percent, while the funds used for accomplishment of depot-level and repair workloads by non-Federal Government personnel are projected to increase almost 35 percent. The DON is projected to exceed the current Section 2466 statutory limitation that no more than 40 percent of the funds made available in a fiscal year for depot-level maintenance and repair workload may be used to contract for the performance by non-Governmental Federal personnel (private sector) in FY 1998. The funds used for accomplishment of depot-level and repair workloads by Federal Government personnel are projected to remain at around 50 percent of total funded workload in the out years.

TABLE 8
NAVY DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOADS*
FY 1997-FY 2001

Distribution Of Programmed Funding for Navy Depot Maintenance And Repair Workloads Accomplished By Federal Government Personnel And Non-Federal Government Personnel**

(Constant FY 1996 Dollars in Millions)

	FY97	FY98	FY99	FY00	FY01
Total Workload	5,312	5,288	5,723	6,026	5,594
Public Workload	3,223	3,115	2,983	3,184	2,788
Private Workload	2,089	2,173	2,740	2,842	2,806

(Percent)

	FY97	FY98	FY99	FY00	FY01
Public Workload	61	59	52	53	50
Private Workload	39	41	48	47	50

NOTE: Tables may not add due to rounding.

*These data do not include programmed funding for the depot maintenance-related portions of Interim Contractor Support (ICS) or Contractor Logistic Support (CLS).
**Does not include Marine Corps which is shown separately below.

The Navy's CORE computation requirement underlies the above data. The combined Navy CORE requirements for the Naval Air Systems Command (NAVAIR), the Naval Sea Systems Command (NAVSEA) and the Space and Naval Warfare Command (SPAWAR) declined substantially from the levels determined in FY 1994. Driven primarily by the changes in NAVSEA CORE requirements, total Navy public sector requirements have been reduced by over 30 percent.

The Navy data presented above are shaped by the following specific assumptions:

- Aviation depot and naval shipyard closures proceed with Long Beach Naval Shipyard being phased out in FY 1996 and NADEP Alameda and NADEP Norfolk depot maintenance operations being phased out in FY 1997.
- Additional outsourcing of depot maintenance workloads results from sizing remaining public sector depots to provide required CORE capabilities.

The data for FY 1997-FY 2001 show total Navy-programmed funding for accomplishment of depot-level maintenance and repair workload increases about 6 percent over the period. The larger changes are that the funds used for depot-level maintenance and repair workloads accomplished by Federal Government personnel decrease approximately 15 percent, while the funds used to contract for non-Federal Government personnel accomplishment are projected to

increase almost 39 percent. The funds programmed for use by Federal Government personnel are projected to remain at about 50 percent of total funded workload in the out years.

TABLE 9
MARINE CORPS DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOADS*
FY 1997-FY 2001

Distribution Of Programmed Funding for Marine Corps Depot Maintenance And Repair Workloads Accomplished By Federal Government Personnel And Non-Federal Government Personnel

(Constant FY 1996 Dollars in Millions)

	FY97	FY98	FY99	FY00	FY01
Total Workload	213	186	187	187	185
Public Workload	163	152	147	144	151
Private Workload	50	34	39	43	35

(Percent)

	FY97	FY98	FY99	FY00	FY01
Public Workload	77	82	79	77	81
Private Workload	23	18	21	23	19

NOTE: Tables may not add due to rounding.

*These data do not include programmed funding for the depot maintenance-related portions of Interim Contractor Support (ICS) or Contractor Logistic Support (CLS).

The CORE computation requirement underlying the above data is based on projected depot maintenance requirements for Marine Corps principle end items (PEIs) and their associated secondary depot reparables (SDRs) which are mission essential for the deploying forces. The Marine Corps conducted a qualitative review of private sector sources to evaluate capabilities to perform specific workloads. Due to the small size of the Marine Corps non-CORE-related requirements currently accomplished by Federal Government personnel, and the relatively high cost of contracting out such small workloads, it was determined to be in the best interest of the Marine Corps to accomplish this maintenance using Federal Government personnel. Using the revised DoD methodology, Marine Corps CORE requirements are now calculated to be 2.0 million DLHs, basically unchanged from the previous computation. The Marine Corps identified a total organic capability requirement of 2.4 million DLHs comprised of CORE, interservice agreements, and a small amount of non-CORE workload.

The data for the FY 1997-FY 2001 show total Marine Corps depot maintenance workload declining over the period by about 13 percent. The funds used for accomplishment of depot-level and repair workloads by both Federal Government and non-Federal Government

personnel decrease approximately 13 percent. The funds used for accomplishment of work by Federal Government personnel are projected to remain above 75 percent during FY 1997-FY 2001. The Marine Corps projects a substantial increase, compared with FY 1991-FY 1995, in the level of support to be accomplished by non-Federal Government personnel.

TABLE 10
AIR FORCE DEPOT-LEVEL MAINTENANCE AND REPAIR WORKLOADS*
FY 1997-FY 2001

Distribution Of Programmed Funding for Air Force Depot Maintenance And Repair Workloads Accomplished By Federal Government Personnel And Non-Federal Government Personnel

(Constant FY 1996 Dollars in Millions)

	FY97	FY98	FY99	FY00	FY01
Total Workload	3,700	3,604	3,764	3,815	3,712
Public Workload	2,421	2,054	1,834	1,755	1,710
Private Workload	1,279	1,549	1,930	2,060	2,002

(Percent)

	FY97	FY98	FY99	FY00	FY01
Public Workload	65	57	49	46	46
Private Workload	35	43	51	54	54

NOTE: Tables may not add due to rounding.

*These data do not include programmed funding for the depot maintenance-related portions of Interim Contractor Support (ICS) or Contractor Logistic Support (CLS).

The CORE computation requirement underlying the above data focuses on both readiness and sustainability. It ensures that the Air Force establishes and retains the capabilities needed to assure competence in overseeing depot maintenance production that has both public and private sector elements. The Air Force will be focusing on rigorous risk assessments to facilitate refinement of their CORE requirements analyses and to better project it into the outyears. Using the revised DoD CORE methodology, preliminary Air Force calculations of their CORE requirements amount to 25.5 million DLHs, down from about 27.7 million in the FY 1994 calculation.

The Air Force data presented above are shaped by the following specific assumptions:

- Five significant privatization prototypes will be carried out at Sacramento Air Logistics Center (SM-ALC) and San Antonio Air Logistics Center (SA-ALC) effective in FY 1997.
- Two joint (public/private sector) ventures will be carried out at Oklahoma City Air Logistics Center (OC-ALC) and Warner Robins Air Logistics Center (WR-ALC) over FY 1998-FY 2001.
- Aerospace Guidance and Metrology Center (AGMC) workloads are totally privatized beginning in FY 1997.
- SM-ALC and SA-ALC facilities will be turned over to their respective local redevelopment authorities in conjunction with BRAC-directed base realignment and closure requirements during FY 1997-FY 2000. Source of repair determinations will be made for the substantial workloads currently performed by the depots (e.g., consolidate the workloads to other DoD depots or to private sector activities).
- Privatization will not occur at these levels unless best value can be obtained from the private sector or the risk of privatizing is unacceptable.

The data for FY 1997-FY 2001 show that programmed funding for total Air Force depot maintenance workload remains relatively constant over the period. The funds used for accomplishment of depot-level and repair workloads by Federal Government personnel decrease approximately 29 percent (driven predominantly by privatization initiatives) while the funds used for accomplishment of depot-level and repair workloads by non-Federal Government personnel are projected to increase almost 57 percent (again, the result largely of privatization of current Air Force depot maintenance facilities). As can be seen, it is projected that the Air Force will exceed the current Section 2466 statutory limitation that no more than 40 percent of the funds made available in a fiscal year to a Military Department or a Defense Agency for depot-level maintenance and repair workload may be used to contract for the performance by non-Governmental Federal personnel (private sector) in FY 1998. The funds used for accomplishment of depot-level and repair workloads by Federal Government personnel are projected to level out at about 46 percent of total funded workload in the out years.

SECTION III
SECTION 2466 OF TITLE 10, U.S.C.

The Congressional reporting requirement calls for an analysis of the need for and effect of the requirement under Section 2466 that no more than 40 percent of the funds made available in a fiscal year to each Military Department for depot-level maintenance and repair is used to contract for the performance by non-Federal Government personnel of such workload. The requirement further calls for a description of the effect on military readiness and the national security resulting from this requirement, as well as a description of any specific difficulties experienced by DoD as a result of the requirement. This section of the report will first address the need and effects of mandating that a specific percentage of depot workload be accomplished in organic facilities by Government personnel and then will go on to discuss effects on readiness and DoD's management practices to meet the percentage requirement.

In the relatively recent past, about 70 percent of the funds made available in a fiscal year to each Military Department for depot-level maintenance and repair has been used for performance by Federal Government personnel of such workload. The facilities in which this work has been accomplished have historically been extensively capitalized, creating a substantial infrastructure and carrying with them high fixed expenses. The size of the work force was relatively fixed, and there was a predilection on the part of the Military Services to efficiently workload these facilities and work forces. Department policies and procedures in fact supported retention of this large infrastructure by systematically requiring organic depot maintenance support for virtually all systems. With the changing nature of the military threat to the United States, the related changes in force structure, and revised engagement scenarios, it became apparent that organic capabilities had to be reduced substantially. Additionally, the Department desires to eliminate much of the high-cost infrastructure that is attendant with such capabilities, to make resources available for other DoD priorities such as force modernization.

Similarly, the private sector was undergoing substantive change. Contemporary business processes helped develop responsive and flexible private sector repair capabilities. In many cases, these processes are more efficient than those in DoD's organic activities. DoD recognized that competition and business process reengineering shaped private sector capabilities in a most effective manner. At the same time, because of the changed nature of the private sector market place (i.e., the decline in DoD new systems acquisition programs), commercial firms have become increasingly interested in providing depot-level maintenance support to the Department.

Recognizing these changes, the Department evaluated its policies and processes that define how and where depot-level support is established and maintained. In a 1993 report[2] DoD outlined its revised approach to providing effective and efficient depot-level support to its forces. The concept outlined in this report for providing CORE capabilities, provides a rational basis for sizing the organic sector of the Department's depot maintenance operations. A subsequent review and report by a joint Industry-Defense Department Task Force, basically

[2] *Integrated Depot Maintenance Management*, Office of the Under Secretary of Defense for Logistics, October, 1993.

validated the DoD concept and approach.[3] In 1995, the Secretary of Defense validated the need to maintain organic CORE depot maintenance capabilities to meet essential wartime demands, promote competition, and sustain institutional expertise.[4]

Having outlined the above evolution, it is appropriate to review the first basic issue in question: "Is there a need for an arbitrary amount of depot-level maintenance (in the current case, a minimum of 60 percent of the annual funds) to be performed in DoD's organic depot maintenance facilities?" It is appropriate to point out that there is no known analytical basis for the 60 percent floor; it is rather based on past levels of organic activity and a subjectively supported view of DoD's needs for organic capacity. The CORE methodology on the other hand, provides a reasonable, quantitative approach to identifying the need for, and size of, required organic capabilities. It bases these capabilities directly on the principal missions of the Department. This approach establishes and retains critical capabilities. For other work, however, the Department can pursue private sector solutions and benefit from competitively-driven costs. DoD is committed to providing needed CORE depot-level maintenance capabilities -- and has a sound methodology for determining what is needed. The Department's approach is fully consistent with, and supportive of, the basic premise of the fundamental legislative mandate to DoD to provide CORE depot maintenance capabilities as specified in Section 2464 of Title 10, U.S.C. The Department should not, however, be forced to size its organic operations using arbitrary limitations, or otherwise be directed to be responsive to guidance not related to analytically-derived Military requirements or sound business practices.

To date, as indicated by the data presented in Section I, the Military Services have continued to sustain organic work at above 60 percent of total depot-level maintenance and repair funding, as required by Section 2466. This is fundamentally the result of having the substantive infrastructure left over from the Cold War era. The Services have attempted to workload that infrastructure in an efficient manner and, thus, have had to identify substantial amounts to place into organic depots. Recognizing the need to downsize its infrastructure, DoD has moved to close facilities and eliminate capacity (using both the base realignment and closure (BRAC) process and internal management initiatives). But such efforts take time. By FY 2001, DoD will have closed some 19 major depot maintenance facilities and downsized numerous others, retaining infrastructure that can be directly linked to CORE requirements and operated effectively to provide these capabilities.

The above having been stated, the next issue to be addressed is what, if any, effects has the Section 2466 requirement had to date on Department operations. It is correct to state that the Section 2466 requirement has influenced the Department's approach to depot maintenance management for some time. For example, if DoD determined that lower cost government-owned, contractor-operated (GOCO) facilities provided depot maintenance support with acceptable risk, such an option could not be pursued because of the need to have at least 60 percent of the funds made available in a fiscal year to each Military Department for depot-level maintenance and repair, be used for Federal Government personnel accomplishment of such

[3] *Report of the Defense Science Board Task Force on Depot Maintenance Management*, April 1994.
[4] Secretary of Defense letter to Congress responding to recommendations of the CORM, August 24, 1995.

workload. Similarly, for new systems, reengineered improved support approaches could not be considered because of the need to maintain the relative size of the organic sector share of total workload.

Additionally, Section 2466 has other potential impacts on the Department. If a Service is already spending 40 percent of its depot maintenance funding for contracts involving non-Federal Government personnel, it may be required to direct repair of new systems by Federal Government personnel at higher costs than might otherwise be realized. Essentially, the Service would be forced to eliminate from consideration a wide range of support options that might optimize support of a new system. The Department wants to ensure that careful evaluation is given to all possible support alternatives such as those that package related logistics requirements for accomplishment by a single source. Similarly, the Services may be precluded from considering options such as GOCOs and privatization of existing infrastructure, both of which may result in reduced costs. Innovative approaches to satisfying depot maintenance requirements, through teaming with industry and using contract employees at organic facilities, might also be precluded.

With the variety and complexity of current platforms, combat systems, and weapon systems, the ability to support military readiness and national security must be viewed at multiple levels. The amount of expertise, facilities, and equipment vary widely within each product. While some of these systems share common repair characteristics, it is unrealistic to believe that a simple ratio can be applied to all depot maintenance and repair. Some systems that are heavily supported by dual-use technology, may not require the same level of in-house capability and capacity as systems which are unique to the military. Additionally, in some cases, there currently exists only one source of depot repair. As workload declines, it may be prudent to place all of the capability and capacity in one location because of the level of support required.

The data in Section II indicates the direction the Department would like to take in shaping its depot maintenance operations. It is obvious from the data that DoD needs relief from Section 2466 to evolve to a CORE-based infrastructure and workload position. Without such relief, each Service will be required to retain and perform workload that is not required to sustain analytically-derived CORE capabilities.

Improving the Combat Edge Through Outsourcing

March 1996

Introduction

In the post-Cold War era, the Department of Defense must meet three major challenges:

- Readiness -- Our fighting forces must be prepared at all times to respond to threats to our national security interests anywhere in the world, participate in peacekeeping efforts, and provide humanitarian assistance. Readiness has been, and must remain, the Department's highest priority.

- Quality of Life -- Readiness depends on attracting top quality people and retaining them after they have developed technical and leadership skills. To do so, DoD must offer not only challenging and rewarding work, but also an appropriate quality of life, which encompasses the entire package of compensation, benefits, and work and living environments for military service personnel.

- Modernization -- Modernizing our forces is imperative for future readiness. The Department must increase investment to develop and acquire the weapons that will ensure our technological superiority.

DoD can meet these challenges today and free up the additional resources required for modernization in the future by managing its internal operations and particularly its support activities more efficiently. Support activities, broadly defined, represent a sizable portion of the defense budget. In FY 1996, DoD will spend approximately $93 billion on operations and maintenance. These activities were largely established and organized during the Cold War when DoD had to depend predominantly on organic support. Such support was driven by the possibility of an extended conflict with a rival superpower and a less sophisticated private, commercial infrastructure.

Like the best companies and organizations in the United States, DoD has embarked on a systematic and vigorous effort to reduce the cost and improve the performance of its support activities. This report describes our initiative to determine where outsourcing, privatization, and competition can lower costs and improve readiness.[1] It is submitted in response to Section 357 of the National Defense Authorization Act for Fiscal Year 1996, Public Law 104-106.[2]

[1] In this report, outsourcing is defined as the transfer of a function previously performed in-house to an outside provider. Privatization is a subset of outsourcing which involves the transfer or sale of government assets to the private sector.

[2] The reporting requirements contained in Section 357, and an explanation of where they are addressed in this report, is provided at Appendix 1.

The Importance of Outsourcing and Competition to DoD

Our success in ending the Cold War has ushered in sweeping changes to the Department of Defense. The United States no longer faces a long and protracted conflict with a rival superpower. Instead, we must be prepared to fight and win two nearly simultaneous regional conflicts. These conflicts are often described as "come as you are" wars, meaning that there will be little lead time for mobilization or surge of production capability. They will require rapid transportation, tailored and flexible maintenance support, and greater reliance on private sector suppliers. These conflicts will be technology intensive. Technology has improved our lethality, precision, and mobility. As a result, victory will require dominating flows of information and communication. As our warfighting scenarios have changed, so too have attendant support functions. Best business practices, tempered by risk and threat assessments, must be used to determine where outsourcing, privatization, and competition can improve the performance of these activities.

New Challenges With a Smaller Budget

With the end of the Cold War, the Department of Defense has tailored its force structure and budget to meet the changed security threats. DoD's force structure today is roughly 30 percent smaller than it was in the 1980s. Our budget has also declined to about 60 percent (in real terms) of its peak in 1985. In FY 1997, DoD's budget amounts to $243 billion. Within this budget, the Department must meet three challenges:

Readiness. During this drawdown of forces and budget, the Department provided full funding for readiness. The Department's actions ensured that U.S. forces have remained ready and prepared to defeat any adversary and perform required missions to meet our national security objectives. As the drawdown comes to an end, readiness indicators remain high.

Quality of Life. The quality of life for our military personnel is a paramount ingredient to attracting and retaining a dedicated, motivated force. The Department recognizes that a broad spectrum of services is required to meet the needs of service members and their families. The Department has therefore placed a high priority on ensuring that our personnel are adequately paid, housed, and otherwise supported.

Modernization. The U.S. armed forces are the best equipped in the world. As the Department's overall budget fell in the past decade, DoD reduced resources allocated to the purchase of new equipment and the modification and upgrade of existing systems. Between 1985 and 1996, the procurement budget declined by about 68 percent in real terms. In FY 1996, the Department's procurement budget totaled $43 billion.

This reduction in the procurement budget came at little risk to our fighting forces. In fact, the Armed Services were able to maintain the average age of most weapons in the

hands of the fighting forces, even though they bought fewer new systems, by discarding their oldest equipment and redistributing newer equipment throughout the smaller force structure. However, this process is ending, and new equipment must be purchased. In addition, new technologies are now emerging that will dramatically increase the capabilities of our forces. In the coming years, therefore, the Department must increase funding for procurement to ensure our continued technological superiority in the future.

Sources of Funding

The commitment to reduce the federal deficit to zero by the year 2002 means that the Department cannot responsibly plan its future budget needs with the expectation of a significant sustained increase in its real "top line." Solutions to our funding challenge must be found within our current and projected (i.e. FYDP) budget topline. To this end, DoD has initiated a series of initiatives to increase the efficiency of its operations in order to gain more value for every dollar expended.

First, the Department has significantly reduced infrastructure costs through the base realignment and closure process (BRAC). In FY 1996, the BRAC budget crossed over from a net loss on DoD budgets to a net surplus. Over the next five years, BRAC will generate net savings of $17.8 billion. DoD estimates that the results of the four rounds of base closures and realignments, when fully implemented, will produce annual savings of about $5.5 billion.

Second, the Department has initiated a thorough reform of the acquisition process. Over the years, numerous blue ribbon panels and commissions have proposed reforming the defense-unique, slow-moving, and thus expensive, acquisition system. Today, we are implementing those changes. The Federal Acquisition Streamlining Act of 1994, the Federal Acquisition Reform Act of 1996, and the recently-signed DoD Directive 5000.1 and DoD Regulation 5000.2 will enable significant changes to DoD's procurement of goods and services. These initiatives, now in place, are beginning to show results and will lead to substantial efficiencies and savings in the future.

Third, the Department is now beginning a systematic review of its support operations to determine where competitive forces can improve overall performance at lower cost. Outsourcing, privatization, and business reengineering offer significant opportunities to generate much of the savings necessary for modernization and readiness.

Summarizing the challenge for the DoD, General John Shalikashvili, the Chairman of the Joint Chiefs of Staff, recently told the Senate Armed Services Committee that increasing funding for modernization:

> . . . will take tough management decisions, innovation, and even revolutionary approaches, as well as your continued support to accomplish this challenging task within our top line budget projections. One answer lies in aggressively pursuing

institutional and business opportunities.

We must continue to push with all energy acquisition reforms, commercial off-the-shelf opportunities, privatization, outsourcing of non-core activities, and further reductions of our infrastructure. [3]

Outsourcing: Objectives and Experience

The purpose of the Department's initiative is to sustain or improve readiness, generate savings for modernization, and improve the quality and efficiency of support to the warfighters.

To achieve these goals, the Deputy Secretary of Defense established a comprehensive, ongoing DoD-wide review to identify functions that could be outsourced, analyze them to determine where outsourcing is cost effective, and begin the outsourcing process. The review involves the senior civilian and military leadership in the Military Departments, Defense Agencies, and the Office of the Secretary of Defense.

Outsourcing, privatization, and competition offer the prospect of lowering costs and improving performance across a wide range of support activities. The Department's total budget for operations and support activities in FY 1996 amounts to approximately $93 billion. Such activities will only be considered for outsourcing or privatization when they meet three conditions:

First, private sector firms must be able to perform the activity and meet our warfighting mission. DoD will not consider outsourcing activities which constitute our core capabilities.

Second, a competitive commercial market must exist for the activity. Market forces drive organizations to improve quality, increase efficiency, and reduce costs. DoD will gain from outsourcing and competition when there is an incentive for continuous service improvement.

Third, outsourcing the activity must result in best value for the government and therefore the U.S. taxpayer. Activities will be considered for outsourcing only when the private sector can improve performance or lower costs in the context of long term competition.

Analyses of Department activities are still underway. These assessments will likely determine that a number of activities are not appropriate candidates for outsourcing or competition. However, the remaining pool of candidates will be sizable, and we

[3] Posture Statement by General John M. Shalikashvili, Chairman of the Joint Chiefs of Staff, before the Committee on Armed Services, United States Senate, March 5, 1996, p. 19.

expect that the potential for increased savings and improved performance will be significant, amounting to billions of dollars on an annual basis.

These savings will directly benefit modernization. To make this connection clear and to provide appropriate incentives to the Military Departments, the Deputy Secretary of Defense signed a memorandum on February 26, 1996, stating that the DoD Components will not have their outyear budgets reduced as a result of the savings they create through their initiatives, and that these savings should benefit modernization (see Appendix 2).

Why Outsourcing and Competition Work

DoD stands to create the most significant savings and improve readiness when it can augment its internal capabilities with those available from competitive commercial markets. Outsourcing can introduce:

- **Competitive forces**. Competition drives organizations to improve quality, increase efficiency, reduce costs, and better focus on their customer's needs over time. For DoD, competition can lead to more rapid delivery of better products and services to the warfighter, thereby increasing readiness.

- **Flexibility.** Outsourcing provides managers with flexibility to determine the appropriate size and composition of the resources needed to complete tasks over time as the situation changes.

- **Economies of scale and specialization**. Firms that specialize in specific services generate a relatively larger business volume, which allows them to take advantage of scale economies. Often, these economies of scale mean that specialized service firms can operate and maintain state-of-the-art systems more cost-effectively than other firms or the government. Outsourcing to such firms provides a means for the government to take advantage of technologies and systems that the government itself cannot acquire or operate economically.

- **Better management focus**. In recent years, our nation's most successful companies have focused intensively on their core competencies -- those activities that give them a competitive edge -- and outsourced support activities. The activities that have been outsourced remain important to success, but are not at the heart of the organization's mission. Business analysts frequently highlight the fact that the attention of an organization's leaders is a scarce resource that should be allocated wisely. This is equally true for the Department of Defense.

Lessons from the Private Sector

The benefits of outsourcing and competition are apparent every day in our national economy; they are not theoretical or based on uncertain assumptions. Companies report that outsourcing provides the desired benefits. It enables the firms to focus on their core competencies; improve service quality, responsiveness, and agility; obtain access to new technologies; and employ more efficient business practices.

Over the past two decades, competitive forces in the private sector have revolutionized how companies obtain services. Entire new industries -- and companies -- have grown to meet this demand for specialized services across a range of functions: aircraft and ship maintenance, inventory management, accounting and finance, internal audit, data center operations, software maintenance, computer network support, applications development, telecommunications, transportation services, facility management, and benefits administration. In 1996, these service industries will generate an estimated $100 billion in sales.

Surveys performed by a range of organizations for different purposes all document the trend to more outsourcing. For example:

- A 1994 study conducted by Pitney Bowes Management Services found that 77 percent of 100 *Fortune* 500 firms surveyed outsourced some aspect of their business support services.

- A 1992 study of 1,200 companies conducted by the Outsourcing Institute found that 50 percent of firms with information technology budgets over $5 million are either outsourcing or actively considering it.

- A 1994 study conducted by KPMG-Peat Marwick of 309 *Fortune* 1,000 companies found that 48 percent outsourced warehousing functions.

- A 1994 study conducted by the Olsten Corporation of 400 firms found that 45 percent outsourced payroll management functions.

The experiences of individual companies further illustrate the prevalence of outsourcing in the private sector. Canon guarantees photocopier replacement within 24 hours, but outsources the delivery of this service. Avis operates one of the largest data processing systems in the world to handle rental car reservations, but outsources the data processing of its payroll. Chrysler manufactures engines, transmissions and exterior body skins internally, but outsources the remaining 70 percent of final product content. Similar examples exist in every successful American industry.

Public Sector Experience

Many state and local governments carry out effective programs to take advantage of the benefits of competition. Chicago, Indianapolis, Los Angeles, Philadelphia, and San Francisco among others have used competition and outsourcing to improve services and lower costs.

DoD's Experience

Within the Department of Defense, experience demonstrates that competition and outsourcing have yielded both significant savings and increased readiness for each of the military services. As a result of cost comparisons conducted between 1978 and 1994 (under OMB Circular A-76 -- the Federal guidance on performance of commercial activities), the Department now saves about $1.5 billion a year. On average, these competitions have reduced annual operating costs by 31 percent.[4] The consistency of these results highlights the potential benefits to the Department from opening up a significant portion of the operations and support budget to competition.

Savings from A-76 Competitions, 1978 to 1994

Service	Competitions Completed	Total Annual Savings (millions of FY 96 dollars)	Percent Savings
Army	510	470	27%
Air Force	733	560	36%
Marine Corps	39	23	34%
Navy	806	411	30%
Defense Agencies	50	13	28%
Total	**2,138**	**$1,478**	**31%**

Source: Center for Naval Analyses, based on analysis of DoD commercial activities data

[4] Private sector entities won about half of these competitions; government activities won the other half.

These benefits have accrued across the range of DoD support activities. In aggregate, DoD currently outsources approximately 25 percent of base commercial activities, 28 percent of depot maintenance, 10 percent of finance and accounting, 70 percent of Army aviation training, 45 percent of surplus property disposal, and 33 percent of parts distribution, as well as substantial portions of other functions. Indeed, virtually every support function that the Department carries out is provided by the private sector at some location.

The Defense Logistics Agency's (DLA) Direct Vendor Delivery and Prime Vendor programs illustrate the savings and improvements in readiness that DoD has achieved through business reengineering and outsourcing. Under these programs, suppliers deliver products directly to their DoD customers, rather than to a DoD warehouse for storage and subsequent distribution. The programs have made a tangible contribution to readiness: reducing the need for DoD's own warehousing and transportation allows DLA to deliver supplies to warfighters cheaper and faster. In the case of pharmaceuticals, for example, DoD customers now receive their requested goods 75 to 90 percent faster (within 24 hours) and 25 to 35 percent cheaper. These programs not only save resources, but do the job better.

There are numerous other examples of outsourcing's beneficial results. The Air Force has successfully outsourced all support functions at Vance Air Force Base and several bases overseas. The Air Force also contracts for maintenance for the KC-10 and F-117 aircraft and for software in the B-1 and B-2 aircraft. The Army has created a government-industry team to upgrade the Palladin artillery system. The Navy outsources a substantial amount of ship repair -- including maintenance on its most advanced surface combatants.

DoD's Outsourcing Initiative

To maintain readiness and generate the resources required for modernization, the Department must continue on this path and, where appropriate, draw on the competitive forces found in the private sector. We cannot afford -- in either economic or military terms -- to perform the myriad of support functions in the absence of competition.

The Department's review has focused to date on six areas: materiel management, base commercial activities, depot maintenance, finance and accounting, education and training, and data centers.

Materiel Management

Building on the successes demonstrated by the Defense Logistics Agency's Prime Vendor and Direct Vendor Delivery programs, DoD has initiated a thorough review of materiel management which encompasses the actions by which DoD manages its supply

system.[5] Our review is focused primarily on three functions that account for a significant portion of the materiel management budget: disposal operations; distribution depots; and inventory control points.

Disposal Operations. DoD disposes of surplus or "worn out" equipment and other materiel -- valued at $24 billion last year -- through transfers to eligible users [e.g., state and local governments] or sales to the public. We expect that the Department's reengineering efforts will permit placing many government disposal services in the competitive marketplace. In 1996 and 1997, for example, DoD plans to reengineer and/or privatize the sales of excess trucks and trailers, medical and dental equipment, and power distribution equipment, as well as various functions supporting those disposal operations. Such actions are estimated to increase revenues from surplus property sales by as much as 50 percent, decrease operating costs by more than 10 percent, and significantly reduce the need for new capital investment for property disposal functions.

Distribution Depots. In 1997, the Department plans -- on a pilot basis -- to privatize all functions at the distribution depots in Sacramento, California, and San Antonio, Texas.[6] In order to take advantage of recent improvements in the state-of-the-art physical distribution technology, DoD will encourage contractors at both sites to reengineer the distribution depot business processes, and evaluate the results for potential expansion to other distribution sites.

Inventory Control Points. Later this spring, the Department will complete the initial business case analyses for the Armed Services' inventory control points. This study will enable the Department to identify high pay-off/low risk functions.

Base Commercial Activities

Base commercial activities refer to those functions that are necessary to support, operate, and maintain DoD installations -- such as facilities maintenance, food services, local transportation and vehicle maintenance. DoD currently outsources about 25 percent of this workload.

At the present time, DoD Components are conducting cost comparisons -- studies that compare the cost of the government's "most efficient organization" with the cost of performance by private contractors -- encompassing about 150 functions at many different locations. Over the next two years, the Department expects to expand greatly the number of functions and locations being studied in search of opportunities to lower costs and improve performance.

[5] Materiel management includes functions such as provisioning, cataloging, requirements determination, asset management, distribution, and disposal.

[6] See the report of the 1995 Defense Base Closure and Realignment Commission and the July 8, 1995, letter from its Chairman to the Deputy Secretary of Defense.

Depot Maintenance

The Department's depot maintenance policy focuses on maintaining core capabilities in organic facilities. The core concept ensures that critical warfighting capabilities remain under the direct control of warfighters. In the area of depot maintenance, core capabilities consist of the facilities, equipment, and skilled personnel necessary to ensure a ready and controlled source of technical competence to meet the Joint Chiefs of Staff's contingency scenarios.

Subjecting non-core depot maintenance to the forces of competition will lower costs and improve readiness. Reliance on the private sector in this manner complements, but does not replace, organic capabilities. Further discussion of the Department's core policy and details of how DoD calculates core are provided in two accompanying reports submitted to the Congress.[7]

Finance and Accounting

DoD has initiated a robust campaign to increase use of the IMPAC purchasing card.[8] The IMPAC is a VISA card issued by the Rocky Mountain Bank Card System, under a contract with the General Services Administration, and used throughout the Federal Government. Greater use of the card (permitted by the Federal Acquisition Streamlining Act) would dramatically reduce acquisition cycle time and the paperwork associated with making, and paying for, procurement actions -- thus reducing costs and improving timeliness. One study of purchases below $25,000 within the Defense Logistics Agency estimated that use of the IMPAC card instead of purchase orders would reduce administrative expenses by over $70 million in a five year period. In a second study, use of the IMPAC card to purchase automated data processing equipment reduced procurement cycle time (requisition to delivery) from an average of 29 days to less than 5 days.

The Department needs to reengineer some of its internal processes so that it can make maximum use of the IMPAC card's potential for reducing costs. Expanding use of the IMPAC card requires improved communication, coordination, and business practices in DoD's financial, logistics, and acquisition communities. The Department has established two teams to identify barriers and propose solutions: an Integrated Policy

[7] Section 311 of the National Defense Authorization Act for Fiscal Year 1996 requires the two accompanying reports: one on comprehensive maintenance policy and another on the depot maintenance workloads, including the allocation of work between the Department's own depots and the private sector. DoD is submitting separately a report on depot maintenance personnel that is required by Section 312 of that Act.

[8] IMPAC is an acronym for International Merchants Purchase Authorization Card.

Team (IPT) reporting to the Deputy Under Secretary of Defense (Acquisition Reform) and a Purchase Card Financial Management Team, reporting to the Under Secretary of Defense (Comptroller). These groups will complete their work this summer.

The Department has announced A-76 cost comparisons in three finance and accounting areas: debt and claims management; facilities, logistics, and administrative support at Defense Finance and Accounting Service sites; and bill paying for the Defense Commissary Agency. As required by the National Defense Authorization Act for 1996, the Department plans to carry out a pilot program for outsourcing nonappropriated accounting and, by October 1, 1996, complete a plan for outsourcing civilian pay.

The Department has also started to build an entirely new travel system using the best commercial practices. This system will streamline and improve the efficiency of the travel process through greater reliance on the private sector and commercial automation technologies. Opportunities for privatization include: increased use of full service commercial travel offices, use of off-the-shelf software, and the use of a commercial travel card.

Education and Training

The Gulf War demonstrated the increasing role of technology in the art of war. Such technology demands highly trained personnel in both operating and supporting roles, placing a premium on widespread and cost effective training. Technology has also changed teaching and training methodologies. Selected individual training programs can now be delivered through the use of telecommunications at remote locations -- a process termed "distance learning." Increasing the use of these advanced learning technologies can reduce the need for more expensive classroom training at centralized locations. The Department is evaluating how these new technologies affect training requirements and how private sector providers can help the Department in this area. The Department has met with industry to determine if it can adopt successful training management strategies from the private sector.

Data Centers

Over the last several years, DoD has achieved substantial economies and efficiencies in its data center operations. Through the base realignment and closure process, the Defense Information Systems Agency (DISA) is consolidating from 59 data centers to 16 larger defense megacenters (DMCs). DoD estimates that this consolidation, scheduled to be completed late in 1996, will produce net savings of $474 million from FY 1994 through FY 1999, produce $208 million in annual steady state savings thereafter, and eliminate 2,400 civilian positions. As a result of these consolidations, and associated process reengineering actions, 57 percent of the operating budget for DMCs in FY 1996 will be for contracted services. Further analysis of the Department's activities

in this area will be submitted to Congress, as requested by the Conference Report on H.R. 2126, the Department of Defense Appropriations Act, 1996.

The Department is also assessing opportunities for achieving economies and efficiencies in data center operations within the purview of the Military Departments. These actions will take place under Office of Management and Budget Bulletin 96-02, "Consolidation of Agency Data Centers."

Other Functions

Increasing the level of competition could prove valuable for many other DoD commercial functions. DoD will continue to evaluate opportunities for outsourcing.

Implications for Contracting

In order for the Department's initiative to be fully successful, DoD must make changes to its traditional approach to contracting for services . Early investigation or market research of services that may be available from the private sector is paramount. Frequently, the Department has prepared statements of work for bid before, or without, surveying the capabilities of the marketplace.

Similarly, well written, performance-based statements of work that contain output-oriented measures of performance are essential. DoD's statements of work have traditionally focused on inputs or detailed specifications and in many cases failed to provide a basis for evaluating contractor performance. These changes in the Department's approach to contracting for services are part of our ongoing effort to reform the acquisition process and related training provided to DoD's acquisition workforce.

The Involvement of Government Employees

The Department of Defense employs the same superior talent in its civilian workforce as in the military; indeed, DoD civilians consistently demonstrate impressive capabilities and dedication.

To the extent that activities are transferred outside the Department, employees will face dislocation. The Department is committed to making the transition as humane as possible. DoD actions significantly eased such transitions during the recent drawdown and BRAC rounds. Procurement regulations include a "right of first refusal" provision that is required for solicitations that may result in a conversion from in-house to contract performance.[9] The Department's well-established Priority Placement Program (PPP) continues to find new positions for over 900 employees a month, thereby retaining

[9] Federal Acquisition Regulation 7.305(c) and 52-207-3.

valuable investments in human capital. Also, the Defense Outplacement Referral System makes the resumes of DoD civilians and military available to over 18,000 private-sector employers.

DoD makes very effective use of Voluntary Early Retirement Authority, which enables people to enter retirement comfortably under a variety of situations. Also, the Department created the Voluntary Separation Incentive Payment, better known as the buyout. This Congressionally approved program has been used by over 78,000 employees, thereby avoiding a like number of layoffs. Between PPP and buyouts, the Department has been able to hold involuntary separations to less than nine percent of the positions eliminated over the past six years.

To make our employees affected by base realignments and closures more attractive job candidates, the Department sought and received Congressional approval for the Non-Federal Hiring Incentive. Initiated last fall, this program enables managers to provide funds for retraining and relocating DoD employees that they keep on the payroll for at least a year. On other fronts, the Department provides retraining to enable people to qualify for licenses and certificates needed to do their current jobs when they transfer to the private sector.

The FY 1996 National Defense Authorization Act provided additional flexibility by removing the 120-day limit on details at closing or realigning installations, permitting the payment of severance amounts in a lump sum rather than biweekly, providing continuing health coverage for employees facing a layoff, and permitting individuals in similar occupations to volunteer to replace others on reduction-in-force lists.[10]

These initiatives are successful, but the Department recognizes that further changes are needed to ease the transition while promoting workplace stability. To that end, it is encouraging suggestions for such changes from employee unions, professional associations, and all of the Components. Outsourcing, privatization, and competition are topics that spotlight sometimes conflicting goals among DoD Components, employees, and contractors. To maintain an appropriate balance, the Department recognizes that all such efforts need to motivate employees to maintain readiness, retain sufficient talent to complete future missions, and recognize the factors that historically have drawn people to public service.

Consultation

From the beginning of its outsourcing initiative in August 1995, the Department has actively sought input from private industry. DoD recognizes that it can learn a great deal from industry's extensive outsourcing experience.

[10] Sections 1033 through 1036 of the Act.

In November 1995, the Department commissioned a Defense Science Board Task Force to ascertain which activities DoD is currently doing that could be performed by the private sector with greater efficiency, at lower cost, with higher quality. Companies, outside analysts, and numerous DoD organizations have briefed the Task Force. The Department expects the Task Force to issue its report in late April 1996.

In addition, a coalition of ten industry associations has provided the Department with their views and analysis on outsourcing issues.[11] The coalition has offered valuable information on how industry:

- selects functions for outsourcing or retention in house,
- chooses external suppliers,
- writes appropriate contract terms,
- monitors supplier performance, and
- assesses the results in terms of cost savings, improved efficiency, enhanced capabilities, and other potential benefits.

DoD also met with numerous industry representatives and other experts to discuss their outsourcing experiences and opportunities for further outsourcing by the Department. In addition, the Department has discussed its outsourcing initiative with representatives from the Office of Management and Budget and the General Accounting Office. We have also consulted with the United States Chamber of Commerce, the National Association of Women Business Owners, the National Minority Supplier Development Council, the National Industries for the Blind, and other organizations. DoD will continue to work with these and other organizations.

DoD has consulted and will continue to consult with Federal employees at a variety of levels. Under the Federal Government's commercial activities program, for example, DoD policy calls for employees and their union representatives to be notified and involved during the development, preparation, and review of performance work statements and management studies.

At the Department level, DoD has two avenues for consultation with unions. First, eight major unions have national consultation rights with the Department. DoD provides these unions with any revisions to its policies affecting civilian employees and considers their views regarding such revisions. Second, seven of these unions are Defense Partnership Council (DPC) members. DoD officials have provided information to DPC representatives on DoD's outsourcing and privatization initiatives. The Department expects the DPC to stay involved in these matters.

[11] The coalition members are: Aerospace Industries Association, American Defense Preparedness Association, American Electronics Association, American Shipbuilding Association, Contract Services Association, Electronic Industries Association, National Security Industrial Association, Professional Services Council, Shipbuilders Council of America, and the U.S. Chamber of Commerce.

There are active labor-management partnerships at many activities throughout the Department where unions have bargaining rights. The partnerships are working together on various initiatives, such as those concerning outsourcing and privatization. For example, American Federation of Government Employee officials and Kelly Air Force Base managers formed a successful partnership recently, which was recognized with a National Partnership Award Honorable Mention Citation presented by Vice President Gore. Similarly, union and management representatives at McClellan Air Force Base are members of the Mission McClellan Executive Advisory Committee, which advises on matters related to the privatization and conversion of the base.

Impediments to Benefiting from Outsourcing

Several statutes state a preference for private performance of commercial activities. Section 2462 of Title 10, United States Code, requires the Department to obtain services from private firms when they can provide them at lower cost. Section 357 of the National Defense Authorization Act for Fiscal Year 1996 requires the Secretary of Defense to endeavor to obtain commercial products and services from private sector sources.

Achieving the Department's goal -- relying more on outsourcing, privatization, and competition to generate savings for modernization and improve readiness -- is hindered by several statutory and regulatory provisions. Despite the clear policy statement in Section 2462, a variety of other laws, singly or in combination, have complicated, delayed, or discouraged outsourcing, privatization, and competition.

Laws Affecting Depot Maintenance

DoD's depot maintenance policy is to conduct only the minimum workload at organic facilities that is necessary to preserve "core" capabilities. For other depot work, DoD believes drawing on the capabilities of the private sector could lead to more efficient operations. Balancing public and private sector depot maintenance workload would minimize costs and ensure requisite readiness. Provisions of law that impede achieving these benefits are:

Section 2466 of Title 10, United States Code -- The 60:40 Rule

The Department has established a core depot maintenance policy based on maintenance capability requirements that are calculated to meet the Department's warfighting needs in the scenarios approved by the Joint Chiefs of Staff. Necessary depot-level workloads are then identified to sustain those capability requirements. In this way, the Department can ensure that the personnel, equipment, and facilities necessary to

support essential core requirements are being maintained.[12]

In contrast, Section 2466 establishes an arbitrary percentage (60 percent) of depot maintenance that must be accomplished by Federal employees. The 60:40 split limits the Department's ability to manage depot maintenance in an efficient and cost-effective manner.

Section 2464 of Title 10, United States Code -- Core Logistics Functions

Assuring victory at war demands minimizing risk for both operations and support. Therefore, the Department must determine which logistics capabilities are truly core to its warfighting mission and keep those core capabilities under its direct control. Sustaining core capabilities does not mean that all maintenance on mission essential equipment must take place in organic facilities. Maintenance of mission essential equipment can be, and is, outsourced successfully. Examples include various types of maintenance for the B-1, B-2, F-117, KC-10, U-2 aircraft, and numerous surface combatant ships. Private firms should be considered to perform depot work when such work can be done at low or acceptable risk to the warfighting mission and provide best value to the Department. Introducing competition among private firms for depot work that is not required to sustain core capabilities will reduce cost and improve quality. Core assessments need to be based on a consistent methodology involving assessments of both threats and risks. It is Department policy to review every two years core requirements and the workloads necessary to sustain those capabilities.

Section 2464, by contrast, arbitrarily defines core in terms of workload performed at specified facilities. This creates an artificial constraint that reduces the Department's ability to manage effectively its depot maintenance activities and facilities.

Section 2469 of Title 10, United States Code -- The $3 Million Rule

Section 2469 requires public/private competitions before any depot workload in excess of $3 million can be transferred to the private sector. The Department believes that competitions normally should occur only between private firms. DoD believes that Government depots should compete against private firms only when private sector competition is inadequate.

[12] A more detailed discussion of the Department's core depot maintenance policy is included in the accompanying report submitted pursuant to Section 311 of the FY 96 Defense Authorization Act.

Section 2470 of Title 10, United States Code -- Other Federal Work

The Department believes that it should not compete with private industry by performing any depot maintenance work beyond that which is required for core capabilities. However, this provision encourages Government depots to maintain capacity over and above what is necessary to sustain core capabilities in order to compete for additional workloads.

Laws Affecting Outsourcing in General

The Department is seeking to introduce the benefits of outsourcing, privatization, and competition throughout our support establishment. Several provisions of law impose unnecessary constraints on this process or preclude outright the ability to reduce costs, improve quality, and maintain readiness:

Section 2461 of Title 10, United States Code -- General Outsourcing

The Department recognizes the need for Congressional oversight of its management of support operations. However, DoD believes that Section 2461's requirement for four separate reports is unnecessary. Moreover, the extensive "how-to" requirements create disincentives for DoD Components to pursue outsourcing. As a result, these provisions make it difficult to meet the requirements of other statutes to complete any cost comparison expeditiously. (Section 8037 of the Department of Defense Appropriations Act, 1996, which is a recurring provision, restricts the use of appropriations for cost comparisons) that are not completed within 24 months [for single functions] or 48 months [for multiple functions].)

Section 2465 of Title 10, United States Code -- Firefighters and Security Guards

Firefighting and security guard functions must, by this provision, be performed by government personnel -- even in those locations where such services could be performed more efficiently by local municipalities or the private sector. Many military installations are next to or near local municipalities that could provide such services. This provision reduces management flexibility and, more significantly, diverts government personnel and resources from mission essential tasks.[13]

[13] In addition, this provision is a significant problem at installations being closed or realigned where firefighting and security guard formerly provided by DoD personnel ceases to be available.

Section 8020 of the Department of Defense Appropriations Act, 1996 -- 10 Employee Threshold

Experience demonstrates that studying more employees at one time produces proportionately greater recurring annual savings, and reduces the one-time study costs, on a per-person basis.[14] This provision however, requires the Department to go through a comparably detailed analysis of a function involving 10 employees as it does for those involving 1,000 or more. This is inefficient and unnecessary. A higher threshold would streamline decision making processes and ensure a greater return on taxpayer resources. Such thresholds are set by OMB Circular A-76 and need not be included in law.

Section 317 of the National Defense Authorization Act for Fiscal Year 1987 -- Specific Installations

DoD believes that it should be able to consider outsourcing at all installations, unless there is a compelling rationale for exempting particular ones. The Department does not believe that there is such a rationale for exempting Crane Army Ammunition Activity, Crane, Indiana, and McAlester Army Ammunition Plant, McAlester, Oklahoma, from being evaluated for outsourcing, privatization, and competition.

Regulations

The Federal government has published formal policies on government performance of commercial activities since 1955. The current Federal guidance is Office of Management and Budget (OMB) Circular A-76. The A-76 Circular is a straightforward statement of the Executive Branch's preference for obtaining commercial services from private sources where it will achieve best value for the government.

A supplement to Circular A-76 sets forth detailed, "how-to" procedures for conducting cost comparisons to determine whether commercial activities should be performed under contract or in-house. DoD fully supports the requirement to perform cost comparisons before converting performance of a function from in-house to contractor. This is standard practice in industry and makes sound business sense.

The Office of Management and Budget has recently revised the A-76 supplement which it plans to release shortly. The revised supplement represents an improvement over the earlier version. Nevertheless, DoD remains concerned that the process is costly and time-consuming. DoD organizations typically take up to 24 months to complete simple cost comparisons, and 48 months for more complex ones. In the private sector, by

[14] See Marcus, Alan J, Analysis of the Navy's Commercial Activities Program (Report CRM 92-226.10). Alexandria, VA: Center for Naval Analyses, July 1993.

contrast, these same tasks require only about 12 months. The long time lines for completing A-76 cost comparisons act as a strong disincentive to government managers. Moreover, DoD managers may be reluctant to dedicate resources -- A-76 cost comparisons can cost hundreds of thousands of dollars -- to the outsourcing decision making process if the benefits of the process will not be realized until years later. Such costs and time delays make it difficult for DoD to achieve its objectives. DoD intends to take full advantage of the new flexibility and streamlined cost comparison approaches offered by the new supplement.

Conclusion

DoD must continue to reduce its infrastructure and support costs to increase funding for modernization in the coming years. Introducing the competitive forces of the private sector into DoD support activities will reduce costs and improve performance.

Outsourcing is not a theory based on uncertain assumptions. Experience in DoD and the private sector consistently and unambiguously demonstrates how the competitive forces of outsourcing can generate cost savings and improve performance. One need only glimpse at the operations of our nation's most successful companies to see the dramatic benefits that they realize through outsourcing and competition.

Through its outsourcing initiatives, DoD has begun a long-term effort to streamline its support functions further. The success of the Department's initiatives today will help determine how well it supports the warfighters tomorrow.

Appendices

Appendix 1: Extract from Section 357 of Public Law 104-106

Appendix 2: Memorandum from the Deputy Secretary of Defense to the Secretaries of the Military Departments, on Outsourcing and Privatization, dated February 26, 1996

Appendix 3: A-76 Commercial Functions and Civilian and Military Personnel

Appendix 1

Extract from Section 357 of Public Law 104-106

Extract from Section 357 of Public Law 104-106

The portion of Section 357 that requires this report states:[17]

"(d) Report.--(1) The Secretary shall identify activities of the Department (other than activities specified by the Secretary pursuant to subsection (b)) that are carried out by employees of the Department to provide commercial-type products or services for the Department.

(2) Not later than April 15, 1996, the Secretary shall transmit to the congressional defense committees a report on opportunities for increased use of private-sector sources to provide commercial products and services for the Department.

(3) The report required by paragraph (2) shall include the following:

(A) A list of activities identified under paragraph (1) indicating, for each activity, whether the Secretary proposes to convert the performance of that activity to performance by private-sector sources and, if not, the reasons why.

A listing of "commercial" activities carried out by DoD personnel is contained in Appendix 3. The Department has not completed the analyses to determine which activities at which locations should be converted to performance by the private sector, beyond those already announced for conversion to the public. This report describes the considerations and processes that the Department is pursuing. The result will be specific decisions, over time, that will take account of which activities have an adequate competitive environment to provide for economical performance by private sector sources.

(B) An assessment of the advantages and disadvantages of using private-sector sources, rather than employees of the Department, to provide commercial products and services for the Department that are not essential to the warfighting mission of the Armed Forces.

An assessment of the advantages of using private sector sources is provided on pages 5 through 8. The Department believes that through judicious management [e.g., only relying on the private sector where an adequate competitive environment exists to provide for economical performance] there would be no disadvantages to using private sector sources to provide commercial products

[7] The treatment of each reporting requirement in this report is explained in italics.

and services that are not essential to the warfighting mission of the Armed Forces.

(C) A specification of all legislative and regulatory impediments to converting the performance of activities identified under paragraph (1) to performance by private-sector sources.

A discussion of the statutory and regulatory impediments is provided on pages 15 through 19.

(D) The views of the Secretary on the desirability of terminating the applicability of OMB Circular A-76 to the Department.

OMB Circular A-76 is addressed on pages 18 and 19.

(4) The Secretary shall carry out paragraph (1) in consultation with the Director of the Office of Management and Budget and the Comptroller General of the United States. In carrying out that paragraph, the Secretary shall consult with, and seek the views of, representatives of the private sector, including organizations representing small businesses."

The Department consulted as prescribed by this provision. See also the discussion on page 14.

Appendix 2

Memorandum from the Deputy Secretary of Defense
to the Secretaries of the Military Departments,
on Outsourcing and Privatization,
dated February 26, 1996

DEPUTY SECRETARY OF DEFENSE

1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

2/26/96

MEMORANDUM FOR SECRETARIES OF THE MILITARY SERVICES

SUBJECT: Privatization and Outsourcing

As the Secretary has stated frequently, we are committed to maintaining a modern and ready force. This commitment will require, as planned, increased funding for the modernization of our equipment and systems.

Outsourcing and privatization provide a means to achieve this important objective. By drawing on the abilities of the commercial sector, we can provide more efficient and effective support, focus our efforts on what we do best, and redirect substantial resources to modernization.

I expect each of you to make outsourcing and privatization a priority within your Department. I further expect that you will reflect your outsourcing and privatization plans in your FY98-03 Program Objective Memorandum and highlight these plans in your POM presentation to the Defense Resources Board. Resources saved through these initiatives during the POM process will not be decremented from your outyear budgets and should instead be applied to your modernization priorities.

cc: Privatization and Outsourcing IPT

Appendix 3

A-76 Commercial Functions and
Civilian and Military Personnel

A-76 Commercial Functions and Civilian and Military Personnel

FUNCTIONS*	FTEs**	
G - Social Services	**Civilian**	**Military**
G001 - Care of Remains of Deceased Personnel & Funeral Services	20	28
G008 - Commissary Store Operation	12,547	1,507
G010 - Recreational Library Services	760	14
G011 - Morale, Welfare, and Recreation Services	6,489	2,087
G012 - Community Services	565	53
G900 - Chaplain Activities and Support Services	11	26
G901 - Housing Administrative Services	919	2,716
G904 - Family Services	775	96
G999 - Other Social Services	224	104
H - Health Services		
H101 - Hospital Care	7,981	19,527
H102 - Surgical Care	2,223	8,550
H105 - Nutritional Care	1,872	1,329
H106 - Pathology Services	2,080	3,899
H107 - Radiology Services	1,264	2,534
H108 - Pharmacy Services	865	2,475
H109 - Physical Therapy	186	1,025
H110 - Materiel Services	2,057	2,279
H111 - Orthopedic Services	126	325
H112 - Ambulance Services	371	210
H113 - Dental Care	2,001	6,971
H114 - Dental Laboratories	139	746
H115 - Clinics and Dispensaries	2,303	5,996
H116 - Veterinary Services	258	1,897
H117 - Medical Records	1,512	586
H118 - Nursing Services	2,050	9,468
H119 - Preventive Medicine	390	394
H120 - Occupational Health	639	230
H121 - Drug Rehabilitation	584	299
H999 - Other Health Services	1,091	2,529
J - Intermediate, Direct or General Repair and Maintenance of Equipment		
J501 - Aircraft Maintenance	11,192	73,549
J502 - Aircraft Engine Maintenance	66	997
J503 - Missiles	332	1,934
J504 - Vessels	2,004	8,141
J505 - Combat Vehicles	551	36
J506 - NonCombat Vehicles	920	32
J507 - Electronic and Communication Equipment Maintenance	1.532	11,104
J510 - Railway Equipment	18	0
J511 - Special Equipment	1,008	8
J512 - Armament	655	1,347
J513 - Dining Facility Equipment	48	7
J514 - Medical and Dental Equipment	227	670
J515 - Containers, Textile, Tents, and Tarpaulins	99	25

Sources: * Functions - *OMB Circular A76 Supplemental Handbook*
**** FTEs (Full Time Equivalents) - DoD Commercial Activities Inventory Data Base (FY 1994)**

J - Intermediate, Direct or General Repair and Maintenance of Equipment (Con't.)	Civilian	Military
J516 - Metal Containers	10	0
J517 - Training Devices and Audiovisual Equipment	42	37
J519 - Industrial Plant Equipment	26	5
J520 - Test, Measurement and Diagnostic Equipment	84	232
J521 - Other Test, Measurement and Diagnostic Equipment	35	356
J522 - Aeronautical Support Equipment	82	985
J999 - Maintenance of Other Equipment	790	1,652
K - Depot Repair, Maintenance, Modification, Conversion or Overhaul of Equipment		
K531 - Aircraft	26,057	839
K532 - Aircraft Engines	5,595	170
K533 - Missiles	2,751	89
K534 - Vessels	34,395	307
K535 - Combat Vehicles	4,546	66
K536 - NonCombat Vehicles	1,342	54
K537 - Electronic and Communication Equipment	8,121	205
K538 - Railway Equipment	11	0
K539 - Special Equipment	407	14
K540 - Armament	1,658	175
K541 - Industrial Plant Equipment	3,962	25
K543 - Medical and Dental Equipment	45	10
K544 - Containers, Textile, Tents, and Tarpaulins	6	0
K546 - Test, Measurement and Diagnostic Equipment	604	6
K547 - Other Test, Measurement and Diagnostic Equipment	373	0
K548 - Aeronautical Support Equipment	216	1
K999 - Other Depot Repair, Maintenance, Modification, Conversion or Overhaul of Equipment	2,369	216
P - Base Maintenance/Multifunction Contracts		
P100 - Installation Operation Contracts (Multi-function)	373	41
R - Research, Development, Test, and Evaluation (RDT&E) Support		
R660 - RDT&E Support	4,559	1,666
S - Installation Services		
S700 - Natural Resource Services	147	38
S701 - Advertising and Public Relations	101	149
S702 - Financial and Payroll Services	23,717	3,977
S703 - Debt Collection	573	10
S706 - Bus Services	202	88
S708 - Laundry and Dry Cleaning	460	11
S709 - Custodial Services	1,499	4
S710 - Pest Management	494	158
S712 - Refuse Collection and Disposal Services	358	13
S713 - Food Services	1,093	6,699
S714 - Furniture Repair	87	0
S715 - Office Equipment Maintenance and Repair	90	2
S716 - Motor Vehicle Operation	4,295	2,976
S717 - Motor Vehicle Maintenance	3,300	2,859
S718 - Fire Prevention and Protection	9,731	4,385
S719 - Military Clothing	385	154
S724 - Guard Service	6,923	18,007

S - Installation Services (Con't.)	Civilian	Military
S725 - Electrical Plants and Systems Operations and Maintenance	1,882	1,071
S726 - Heating Plants and Systems Operation and Maintenance	2,450	163
S727 - Water Plants and Systems Operation and Maintenance	831	6
S728 - Sewage and Waste Plants Operation and Maintenance	872	310
S729 - Air Conditioning and Refrigeration Plants	952	120
S730 - Other Utilities Operation and Maintenance	763	340
S731 - Supply Operations	8,351	10,999
S732 - Warehousing and Distribution of Publications	49	1
S740 - Transportation Management Services	2,772	4,820
S750 - Museum Operations	98	34
S760 - Contractor-Operated Parts Stores & Civil Engineering Supply Stores	2	0
S999 - Other Installation Services	2,604	2,479
T - Other NonManufacturing Operations		
T800 - Ocean Terminal Operations	680	30
T801 - Storage and Warehousing	23,340	1,259
T802 - Cataloging	466	4
T803 - Acceptance Testing	517	315
T804 - Architect-Engineering	1,683	842
T805 - Operation of Bulk Liquid Storage	628	198
T806 - Printing and Reproduction	610	222
T807 - Visual Information	2,402	1,905
T809 - Administrative Telephone Services	1,255	743
T810 - Air Transportation Services	235	903
T811 - Water Transportation Services	535	1,905
T812 - Rail Transportation Services	140	0
T813 - Engineering and Technical Services	1,624	740
T814 - Aircraft Fueling Services	323	2,895
T816 - Telecommunication Centers	1,648	2,895
T817 - Other Communications and Electronics Systems	1,234	1,413
T818 - Systems Engineering and Installation of Communications Systems	841	1,698
T819 - Preparation and Disposal of Excess and Surplus Property	277	8
T820 - Administrative Support Services	3,628	1,544
T821 - Special Studies and Analysis	119	3
T900 - Training Aids, Devices, and Simulator Support	585	1,345
T999 - Other NonManufacturing Operations	4,152	1,584
U - Education and Training		
U100 - Recruit Training	3	417
U300 - Specialized Skill Training	1,802	7,776
U400 - Flight Training	137	2,595
U500 - Professional Development Training	124	69
U510 - Professional Military Education	2	72
U520 - Graduate Education, Fully Funded, Full-time	189	189
U540 - Off-Duty (Voluntary) and On-Duty Education Programs	833	208
U600 - Civilian Education and Training	76	1
U800 - Training Development and Support	366	1,011
U999 - Other Training Functions	469	560

	Civilian	Military
W - Automatic Data Processing		
W824 - Data Processing Services	4,688	1,635
W825 - Maintenance of ADP Equipment	202	192
W826 - Systems Design, Development and Programming Services	6,443	2,256
W999 - Other ADP Functions	303	13
X - Products Manufactured and Fabricated In-House		
X931 - Ordnance Equipment	3,556	6
X932 - Products Made From Fabric or Similar Materials	1,115	2
X933 - Container Products and Related Items	33	0
X934 - Preparation of Food and Bakery Products	30	0
X935 - Liquid, Gaseous and Chemical Products	9	22
X - Products Manufactured and Fabricated In-House		
X936 - Rope, Cordage, and Twine Products; Chains and Metal Cable Products	21	0
X941 - Optical and Related Products	44	84
X942 - Sheet Metal Products	33	6
X944 - Machined Parts	2	4
X999 - Other Products Manufactured and Fabricated In-House	39	0
Z - Maintenance, Repair, Alteration, and Minor Construction of Real Property		
Z991 - Maintenance and Repair of Family Housing Buildings and Structures	1,944	34
Z992 - Maintenance and Repair of Buildings and Structures Other Than Family Housing	14,370	5,518
Z993 - Maintenance and Repair of Grounds and Surfaced Areas	3,529	1,677
Z997 - Maintenance and Repair of Railroad Facilities	63	3
Z998 - Maintenance and Repair of Waterways	70	0
Z999 - Other Maintenance, Repair, Alteration, and Minor Construction of Real Property	5,016	2,388
Total	**336,890**	**302,956**

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